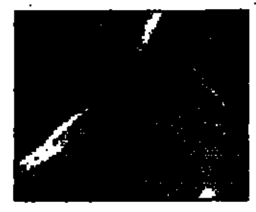
FINANCIAL TIMES

World Business Newspaper http://www.FT.com

WEDNESDAY FEBRUARY 24 1999

Caspian oil play
Low crude price undermines dreams
Page 4

Venture capital
Have Europeans caught internet fever too late?
Page 22



Dutch cover-up
Why El Al crash inquiry shakes government
Page 2

World trade
The case for a new multilateral round
Martin Wolf Page 14

WORLD NEWS

Turkey charges Kurd leader Ocalan with treason

Abdullah Ocalan, leader of the Kurdish Workers' party, was formally charged with treason as his capture by Turkey rattled the Greek government and financial markets. Page 2

US seeks to reassure exporters
The US attempted to reassure US exporters that Washington's rejection of a $450m satellite sale to China could stiffen curbs on technology trade. Page 16

France's right fails to unite
Divisions over European policy have helped end a fresh attempt to unite France's right around a common list of candidates for the European parliamentary elections in June. **Europe, Page 3**

Lafontaine warns on deflation
German finance minister Oskar Lafontaine warned against the possibility of deflation and called again for the European Central Bank to cut interest rates. **Europe, Page 2**

Stockholm defies government
The city of Stockholm granted tenants the right to buy council homes despite opposition from the Swedish central government. **Europe, Page 3**

Malaysia announces state poll
Malaysia said the first elections since its political crisis began in September would be held on March 12 and 13 in the eastern state of Sabah. **Asia-Pacific, Page 6**

China to step up WTO bid
The US and China agreed to inject new momentum into Beijing's stalled bid to join the World Trade Organisation. **World trade, Page 4**

Spending cuts 'threaten stability'
Australian government leaders warned that the collapse of Asian defence spending amid economic turmoil threatened regional stability and security. **Asia-Pacific, Page 6**

Harriers to join forces
Harrier aircraft from Britain's Royal Air Force and Royal Navy are to merge into a single strike force, the government announced. **Britain, Page 11**

Microsoft evidence questioned
A Microsoft executive was accused in court of fabricating evidence about the company's contacts with its internet rival Netscape Communications. **US and Canada, Page 5**

Congress and Clinton strike deal
US president Bill Clinton met congressional leaders with all sides pledging to work together in an era of improved co-operation. **US and Canada, Page 5**

Three die in Bangladesh clashes
Three people were killed and more than 100 wounded in bomb blasts and clashes in Bangladesh as opposition parties enforced a nationwide strike to block local elections, police said. **Asia-Pacific, Page 6**

Internet surgery to be tested
A high-speed internet connecting 37 US universities will be put to the test today when a patient undergoes surgery at Ohio State University with the help of doctors in Washington DC. **US and Canada, Page 4**

BUSINESS NEWS

Frankfurt falls out with London over share trading plan

The London and Frankfurt stock exchanges are at odds over how ownership of their proposed pan-European system for trading shares of Europe's leading companies will be structured. The dispute is the first serious problem facing their alliance, unveiled last July. The two exchanges are also divided over which family of equity indices will be associated with the new system. Page 17

Unilever is to hand £5bn ($8.15bn) to shareholders with a special dividend described by the Anglo-Dutch consumer group as the largest one-off payout by a company. **Page 17; Buyback bonanza, Page 14; Lex, Page 16; Analysis, Page 21**

Robert Bosch, Europe's biggest automotive parts maker, continued its expansion among Asian suppliers with agreement to buy majority control of Zexel, a Japanese components company with sales of Y230bn ($1.91bn). **Asia-Pacific companies, Page 20**

Daiwa Bank, Chuo Trust, Mitsui Trust and Sakura Bank could be 30 to 60 per cent government-owned after Tokyo's planned injection of at least Y7,450bn ($64.2bn) of public funds into Japanese banks. **Page 16**

Home Depot, the world's largest home improvement retailer, reported a 36 per cent jump in fourth-quarter earnings to $418m to highlight the continuing strength of US retailers. **US companies, Page 19**

BSkyB and Canal Plus, the leading UK and French pay television broadcasters, have entered preliminary talks on a merger. **European companies, Page 18; Lex, Page 16**

Kvaerner, the Anglo-Norwegian engineering and shipbuilding company, plans a restructuring following a pre-tax loss of NKr1.35bn ($183m) last year. **European companies, Page 18**

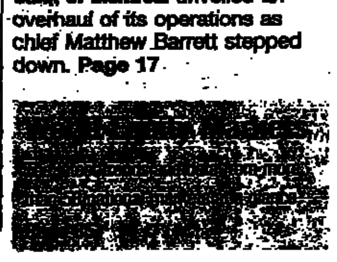
MeritaNordbanken, the Nordic region's largest lender, reported a 13 per cent increase in underlying profits from FM7.24bn (€1.21bn, $1.38bn) to FM8.15bn. **European companies, Page 18**

BTM, the Bank of Tokyo Mitsubishi, is to boost the capital of its UK securities business, Tokyo-Mitsubishi International, by £185m to £335m ($543m). **Asia-Pacific companies, Page 20**

Ciba Specialty Chemicals reported a 35 per cent drop in net income before restructuring charges to SFr369m ($254m). **European companies, Page 18**

NXT, the UK technology company, demonstrated a transparent loudspeaker fitted across the screen of a laptop computer. **UK companies, Page 21**

Bank of Montreal unveiled an overhaul of its operations as chief Matthew Barrett stepped down. **Page 17**



US economy still at risk of imbalance, says Fed chief

Greenspan predicts continuing growth and low inflation but warns of dangers

By Gerard Baker in Washington

The US economy performed "admirably" in 1998, shaking off the international financial turmoil with ease, but remains prey to a host of dangers that could tip it towards either stronger inflation or weaker growth, Alan Greenspan, chairman of the Federal Reserve, said yesterday.

In his half-yearly Humphrey-Hawkins report, Mr Greenspan told the Senate banking committee the economy should continue to enjoy robust growth with subdued inflation over the next year, extending the longest peacetime expansion this century.

But imbalances were emerging that could force the Fed either to raise or to lower interest rates at short notice. "After eight years of economic expansion, the economy appears stretched in a number of dimensions," he said. "In light of all these risks, monetary policy must be ready to move quickly in either direction."

The central bank expected growth this year to slow from 3.9 per cent in 1998, the third straight year of growth over 3 per cent. The Fed predicted gross domestic product would expand by between 2.5 per cent and 3 per cent in 1999 – a substantial upward revision from its forecasts two months ago, and above what most of its economists regard as the economy's long-term potential growth rate.

Inflation was expected to rise, with consumer prices forecast to grow by between 2 and 2.5 per cent versus 1998's 1.6 per cent.

Mr Greenspan reiterated that if growth did not slow, sooner or later the tightness in labour markets, combined with recent gains in consumer spending, would produce an acceleration in wages and inflation.

Risks to growth came from global weakness; a fall in the recent high rates of growth of capital spending; and the threat that a stock market correction could hurt consumer and business confidence.

Mr Greenspan again signalled his concern about the stock market: "Equity prices are high enough to raise questions about whether shares are overvalued.

"As the economy slows to a more sustainable pace, as expected, profit forecasts could be pared back, which together with a greater sense of vulnerability in business prospects could damp appetites for equities."

He added that the central bank would consider taking back at least a part of the interest rate cut it made last autumn. "The Federal Reserve must continue to evaluate . . . whether the full extent of the policy easings undertaken last fall to address the seizing-up of financial markets remains appropriate as those disturbances abate," he said.

That remark alarmed bond investors, who drove the benchmark 30-year Treasury bond down almost one full point as Mr Greenspan spoke, raising the yield to 5.42 per cent.

Overall, markets interpreted the testimony as indicating the Fed remained in a neutral position on the risks to the economy. After an early fall, equity prices had recovered almost all their losses by 1pm in New York.

Editorial Comment, Page 15
Lex, Page 16
Inflation's disappearing trick, Page 5
Speech, www.ft.com/americas

Blair launches plan for euro changeover

By Robert Peston, Political Editor

Tony Blair, the UK prime minister, yesterday put himself at the head of the campaign to take the UK into the European single currency early in the next century.

In a historic statement to the House of Commons, he removed any doubt about his conviction that "Britain should join a successful single currency", as he launched a national changeover plan on steps required by the public and private sectors for the smooth introduction of euro notes and coins.

Meanwhile, he has taken important steps towards forming a cross-party pro-euro alliance, by holding private talks with the former Conservative chancellor, Kenneth Clarke, and the former Conservative deputy prime minister, Michael Heseltine.

William Hague, the Conservative leader, who strongly opposes Britain's adoption of the euro, yesterday accused Mr Blair of jeopardising "1,000 years" of independence.

Although the prime minister insisted it was "not inevitable" that Britain would become the 12th member of the euro-zone, he also made it clear he believed there was a strong likelihood that the relevant economic conditions for joining would be in place shortly after the next election, due in 2001 or 2002.

The changeover plan says that if a decision to join were taken in 2001, sterling would be abolished as legal tender in 2004. It also estimates that between 24 and 30 months should elapse between a promised referendum vote in favour of the euro and the introduction of euro notes and coins.

As a signal of the government's intent, Mr Blair said he would seek parliamentary authority to spend tens of millions of pounds converting the computer systems at the Inland Revenue, Customs and Excise and the department of social security. He urged business to "start to do the same".

There was widespread support from the financial community and industry both for the practical steps envisaged to prepare for membership and for abandonment of Mr Blair's equivocal position on the euro.

Sir Clive Thompson, president of the Confederation of British Industry, called for an "unequivocal commitment to British entry" but was encouraged by Mr Blair's "sentiment and body language" during his speech.

Nick Herbert, chief executive of Business for Sterling, the business lobby group opposed to early UK entry, said Mr Blair had announced a significant change of policy. "He is signalling a change of gear and glossing over the substantial difficulties that remain," he said.

Reports and analysis, Page 10
Editorial Comment, Page 15
UK/Emu, Page 21

German foreign minister Joschka Fischer, left, and Serb president Milan Milutinovic in heated discussion at Rambouillet yesterday AP

Kosovo talks break up without a deal

By David Buchan in Rambouillet

More than two weeks of intense negotiations to secure peace in Kosovo ended yesterday with no signatures on any agreement. But international mediators said they had achieved "consensus" among Serbian and ethnic Albanian negotiators for a deal and summoned both sides to talks midway through next month.

Foreign ministers of the six-nation Contact Group claimed that the 17 days of talks had produced substantial progress but they conceded failure in persuading the two sides to sign their draft peace plan.

"We have no signatures yet," said Hubert Védrine, the French foreign minister. "The essential point is that we have started a process and we are not going to let go now."

Madeleine Albright, the US secretary of state, said: "We have decisively broken the stalemate that has hung over Kosovo for so long."

After Albanian negotiators demanded a two-week break to consult their "political and military" base in Kosovo, a new round of talks was scheduled to start elsewhere in France on March 15. But this second set of talks will not only need to tackle the controversial issue of a Nato-led force in Kosovo to implement the political agreement; it will also have to tie up many loose ends in that agreement.

The "consensus" that mediators hailed consists of separate letters to the Contact Group from each side. In their letter, the Albanians say they "can accept" the draft peace plan, subject to consultations in Kosovo and expert technical review. It also implies the Kosovo Liberation Army will lay down its arms, as demanded by the Contact Group.

But Albanians make their acceptance of the peace plan dependent on "rapid deployment" of a Nato force and on "a referendum to ascertain the wishes of the people". The Contact Group refuses to promise the Albanians a referendum if it is opposed by the Serbs.

In their letter, the Serbs express willingness to support autonomy for Kosovo, provided this does not end in independence or the founding of a third republic of federal Yugoslavia.

In an apparent concession, the Serbs, who had earlier insisted that they would never accept foreign troops, stated that Yugoslavia is ready to "discuss the scope and character of an international presence".

US strategy undermined, Page 2

Telecom Italia plans merger to foil Olivetti

By Paul Betts in Rome

Telecom Italia is poised to merge with its 60 per cent owned cellular telephone subsidiary in a move that could deal a knock-out blow to Olivetti's €53bn ($59bn) proposed hostile bid for its much larger Italian telecommunications rival.

The Telecom Italia board is due to meet tomorrow to consider a merger with Telecom Italia Mobile, which would substantially increase the cost of Olivetti's highly leveraged bid.

The merger would raise the cost of any offer for the combined group by about €20bn, making it more difficult for Olivetti's audacious bid plan to succeed. It is understood, however, that Telecom Italia will put its merger proposal to a shareholders meeting.

Olivetti confirmed it intended to go ahead with its proposed bid, in spite of Monday night's decision by Consob, the Italian stock market watchdog, to halt the offer on the grounds that it did not comply with takeover rules.

Consob's verdict that the bid was inadmissible cleared the way for Telecom Italia to draw up defences. Under Italian takeover rules, this would have been impossible if Consob had approved the offer.

However, even before the Olivetti bid, Franco Bernabe, the Telecom Italia chief executive, had been considering a merger of the fixed-line telephone company with its mobile subsidiary as part of his long-term strategy.

He told company managers last week he wanted to change the group's focus to that of a service provider offering a full range of services to the broadest band of customers. "This constitutes a Copernican revolution for this company."

He will address Telecom Italia's unions today to outline an industrial strategy designed to adapt the former telephone monopoly to its new privatised status.

He told managers the Olivetti bid had helped create a strong sense of "esprit de corps" inside the company after a long period of management turmoil and lack of clear leadership.

Lex,Page 16; Analysis, Page 18

WORLD MARKETS

STOCK MARKET INDICES		
New York: Lunchtime		
Dow Jones Ind Av	9522.02	(-30.66)
NASDAQ Composite	2368.90	(+26.89)
Europe and Far East		
CAC40	4207.95	(+42.08)
DAX	4987.56	(+142.38)
FTSE 100	6155.2	(+85.3)
FTSE Eurotop 300	1235.39	(+13.86)
Nikkei	14,500.65	(+243.98)
US Lunchtime RATES		
Federal Funds	4.625%	
3-mth Treas Bills: Yld	4.647%	
Long Bond	97$\frac{13}{32}$	
Yield	5.413%	
OTHER RATES		
UK: 3-mo Interbank	5$\frac{13}{32}$%	(same)
UK: 10 yr Gilt	112.25	(112.27)
Euro Euribor	3.078%	(3.075%)
Germany: 10 yr Bund	99.14	(99.17)
Japan: 10 yr JGB	99.484	(99.354)
NORTH SEA OIL (Argus)		
Brent Dated	$10.57	(10.19)

GOLD		
New York: Comex		
	$289.7	(289.0)
London:		
	$287.15	(287.35
DOLLAR		
New York: Lunchtime		
£	1.6133	
€	0.9089	
SFr	1.4767	
Y	121.275	
London:		
£	1.6113	(1.6227)
€	0.9107	(0.9065)
SFr	1.4517	(1.4498)
Y	121.195	(120.35)
Tokyo Close		Y 120.35
EURO (London)		
$	1.0981	(1.1032)
£	0.6814	(0.6798)
Y	133.078	(132.748)
SFr	1.5941	(1.5985)

© THE FINANCIAL TIMES LIMITED 1999 No.33,840
London · Leeds · Paris · Frankfurt · Stockholm · Milan · Madrid · New York
Chicago · Los Angeles · Tokyo · Hong Kong

Euro-zone target price €2.15. Prices in local currency as shown

Bahrain	Din1.300	Iceland	IKr285	Oman	OR1.75
Belgium	BFr90 (€2.23)	Italy	L3900 (€2.01)	Poland	Zl 10.00
CIS	US$4.00	Jordan	JD1.75	Portugal	Esc320 (€1.60)
Croatia	Kn19.00	Kuwait	KWD0.750	Qatar	QR13.00
Denmark	DKr15.00	Latvia	Ls1.65	South Africa	R16
Estonia	EKr34.00	Lithuania	Lit21.00	Spain	Pta325 (€1.95)
Finland	Fmk13.00 (€2.19)	Lebanon	LBP3.500	Sweden	SKr20.00
France	FFr14.00 (€2.13)	Luxembourg	LFr90 (€2.23)	Switzerland	SFr3.50
Gibraltar	£0.85	Morocco	Dh18.00	Syria	S£80.00
Greece	Dr580	Netherlands	Fl 4.80 (€2.18)	Tunisia	Din2.000
Hungary	Ft380	Norway	NKr19.00	UAE	Dh13.00

For subscription information please contact:
Subscription Sales Department, The Financial Times Limited,
Number One Southwark Bridge, London, SE1 9HL.
Tel: +44 171 873 4200 Fax: +44 171 873 3428
E-mail: FTESubs@FT.com

CONTENTS

PKK leader charged with treason

By Leyla Boulton in Ankara and Kerin Hope in Athens

Abdullah Ocalan, leader of the Kurdish Workers' party (PKK), was yesterday formally charged with treason as his capture by Turkey rattled the Greek government and financial markets and continued to sour relations between the two countries.

Prosecutors said the state would seek the death penalty, not used in Turkey since 1984.

Ankara rejected the European Union's request that it should be allowed to send observers to Mr Ocalan's trial.

"The EU's idea of sending observers to the trial means to approve and encourage interference in the independent judiciary," the foreign ministry said. "This attitude which is against the principle of a state of law is not acceptable." It said, however, that individual monitors could attend the trial providing judges agreed.

The strength of Turkey's reaction was in part due to disappointment with the EU's failure, at a meeting of foreign ministers on Monday, to criticise Greece, a member state, for allegedly supporting Mr Ocalan and the PKK. Ankara said it had expected the EU to ask Athens to account for its "shameful" violations of international law.

Costas Simitis, Greek prime minister, yesterday desperately fended off the impact of Mr Ocalan's arrest, which has already cost the resignations of three ministers. He accused Turkey of a "defamatory" campaign against his country.

Mr Simitis held a special session of the defence and foreign policy council to discuss the Ocalan affair, as Greek markets slipped 6 per cent on fears that political instability could drive the government from its path to convergence and entry to the euro-zone, scheduled for 2001. The Greek drachma slipped to Dr323.40 against the euro, its lowest level since mid-January, before recovering to Dr323.15 at close of trading in Greece.

"No one can prevent the course toward a strong and modern Greece," Mr Simitis said after the council meeting. "The government will stick to its policy and its efforts for Emu entry according to the timetable."

Nevertheless, the political furore has so damaged the credibility of the government that senior members of the governing socialist party have begun discussing the possibility of an early election, possibly to coincide with the European parliamentary elections in June.

Suleyman Demirel, Turkish president, had on Monday said he would seek to have Greece classified as a state that supports terrorism. Turkey said it had sent files of evidence backing its case against Athens to the EU and Nato. Both countries are Nato members.

Greece had sheltered Mr Ocalan in its Nairobi embassy for nearly two weeks until he was whisked off to Turkey. Ankara holds him responsible for the deaths of up to 30,000 people in a 14-year conflict in the country's south-east.

Turkish security forces said yesterday they had killed 14 PKK guerrillas in clashes in the south-east's Siirt and Sirnak provinces over the past two days.

Kurds sceptical of investment pledge

Ankara is convinced that promises to boost economic development in the south-east will counter disaffection

By Leyla Boulton in Ankara

Business leaders of Turkey's backward south-east can just about keep count of the number of times the government has promised to boost economic development in the region.

An "investment onslaught" announced by Bülent Ecevit, the caretaker prime minister, to help win over disgruntled Kurds after the capture last week of Abdullah Ocalan, leader of the PKK guerrilla movement, is by their tally the eighth pledge of its kind. But the announcement was not accompanied by any calculation of how much money would be allocated to the region.

Like most Turkish politicians, Mr Ecevit argues that Kurdish support for the PKK's struggle for self rule in the south-east can be defused primarily by economic and social measures – jobs, education, and health care. But his determination to "see to it" that investment incentives should produce "substantial results" is in sharp contrast to the slow progress visible so far in Diyarbakir, the region's biggest city.

Attacks by the PKK, often blamed by the government for the south-east's high rates of unemployment and migration, appear to be only part of the problem.

"It's as if the government is teasing us," says Adem Erdem, secretary-general of Gunsiad, the regional business association, who says he "regrets" setting up two factories, one of which produces plastic pipes and the other industrial dyes.

Instead, it is the region's daily power cuts that give Mr Erdem and other company bosses their biggest headache. The south-east still suffers from poor infrastructure, even though it is home to one of the world's most ambitious electrification projects.

Power from the $32bn South-east Anatolia Project's hydro-electric dams has so far mainly been used to meet the needs of the industrialised west of the country.

Even the government's favourite investment showcases have been affected.

Kurdish women working in the cotton fields of Diyarbakir — Caroline Penn

Every time there is a power cut in the 2000-person Akyil textile plant in Diyarbakir, it takes up to two hours' to repair the spools of ripped yarn.

The problems with infrastructure and the risk of PKK violence have led many businessmen to dismiss government offers of cheap electricity for the construction of factories; they want such benefits to continue after plants go on stream. They also want more generous tax incentives.

In an interview last month, before Mr Ocalan's capture sparked new offers of help, Nafiz Kayali, the region's Ankara-appointed governor, conceded there was a need to fine-tune investment support. But he said his requests for the necessary changes had so far received no response.

Mücahit Can, a Kurd who grew up in a Diyarbakir slum, is one of the few local businessmen who says he is making money. His latest venture is a $75m project to build luxury flats. Sitting in the back office of his glitzy Opel dealership in downtown Diyarbakir, he declares that the south-east could be richer than other parts of Turkey if it harnessed its natural resources.

But he also argues that economic improvements on their own cannot deliver lasting peace to the region. Having learned Turkish at school at the age of seven, Mr Can favours cultural rights sought by moderate Kurds who do not support the PKK.

"Children should have the chance to learn, read, and watch television in Kurdish," he says. "This will not split up the state. On the contrary. We love our country and want it to stay united. But Kurds should live with their own culture and language and I hope that the necessary regulations will be adopted soon."

Other businessmen warn that even if investment could deliver all the benefits expected of it in Ankara, the conditions so far are not ripe for it to flourish on the scale necessary to dent popular support for the PKK.

US strategy on Kosovo is undermined

By Guy Dinmore in Belgrade

Hardliners within the ethnic Albanian Kosovo Liberation Army (KLA) have effectively scuttled the US strategy to isolate Serbia at peace talks in France, but yesterday's inconclusive outcome at Rambouillet also exposed serious divisions within the rebel movement that could lead to further violence.

Sources close to the 16-member Kosovo Albanian negotiating team said the delegation voted unanimously to accept in principle the US-drafted peace plan, but pressure from KLA hardliners, notably their political representative Adem Demaci, prevented them from signing. Instead they promised to return to Kosovo to consult their people.

Mr Demaci, a veteran of the Kosovo independence movement who spent 28 years in Serbian jails, yesterday flew to Slovenia for urgent medical treatment. He was also expected to meet Hasim Thaci, the 29-year-old head of the KLA political directorate who led the ethnic Albanian delegation at Rambouillet.

Madeleine Albright, the US Secretary of State, yesterday spoke to Mr Demaci by telephone but failed to gain his support for the three-year interim accord that would grant broad autonomy to Kosovo province and its ethnic Albanian majority. Diplomats said the US gameplan to get KLA support and bludgeon Belgrade into an agreement through the threat of air strikes was no longer viable, at least until March 15 when the peace conference is scheduled.

The KLA has lacked a unified political or military command structure since the war in Kosovo erupted a year ago. Fighting units are effectively led at the village level by local warlords whose support often rests on ancient clan allegiances.

But Mr Demaci, who refused to attend the Rambouillet talks, has emerged as a potent political force. "We continue to see Mr Demaci as a major obstacle to this peace process," said James Rubin, US State Department spokesman.

Mr Demaci opposes provisions within the peace plan that call for the demobilisation and disarming of the KLA by Nato peacekeepers within three months. He also demands a commitment to a referendum on self-determination at the end of the three-year period.

Albin Kurti, a Kosovo Albanian student leader close to Mr Demaci, yesterday condemned the Rambouillet peace process. "No political deal can be made without Mr Demaci's approval. The KLA will continue its liberation war to the end," he said in Kosovo's capital Pristina.

Mr Demaci had met the newly appointed KLA commander in chief, Suleiman Selimi, and received his full support as the rebel army's chief political representative, Mr Kurti said in an indirect attack on the authority of Mr Thaci.

"There is now a power struggle within the KLA, between Thaci and Demaci," said one source close to the KLA. "But if most local commanders have a sense of reality they will go along with Thaci," he added, suggesting that Mr Selimi might eventually back the proposed peace deal.

Western monitors of the 1,300-strong Kosovo Verification Mission are concerned that "maverick" elements of the KLA will try to sabotage the peace process by provoking Serbian security forces into heavy-handed retaliation in the hope that Nato will be forced to intervene.

Lafontaine voices fears over deflation

By Ralph Atkins in Bonn

Oskar Lafontaine, Germany's finance minister, yesterday warned against the possibility of deflation in the economy and called again for the European Central Bank to cut interest rates to ward off the threat.

His comments came amid increasing concern in the finance ministry at deteriorating economic conditions facing Germany. In its latest monthly report, the ministry acknowledged the economy was showing "weak tendencies" with manufacturing activity "clearly slowing" at the end of last year.

Mr Lafontaine pointed to the steepest fall in industrial producer prices since reunification in 1989 – down 1.7 per cent in the year to December. "At the moment, there is no inflation danger," he said. "If nothing is done soon, the danger of deflation will predominate."

However, economists warned the new Bonn government was undermining the euro by seeking to use the currency as part of its job creation attempts, undermining the stability culture.

Presenting his 1999 budget plans to the Bundestag, or parliament, Mr Lafontaine insisted monetary policy could not be regarded as "growth neutral" but could have "positive effects" on profit expectations, investment and employment.

Mr Lafontaine added that Germany's "stability programme" – which sets tough public sector deficit and debt goals for the years ahead as required by euro-zone governments – depended on unemployment falling and avoiding a prolonged period of weak economic growth.

Bundesbank forecasts last week suggested seasonally-adjusted gross domestic product fell by 0.4 per cent in the fourth quarter of 1998.

The finance minister believes his budget prudence has created the fiscal conditions for further cuts in interest rates and argues that there is "room for manoeuvre" for the European central bank to act without jeopardising price stability. He said the example of Japan showed attempts at monetary stimuli could fall flat if applied too late or in too small quantities.

Mr Lafontaine described his 1999 budget, which increases federal spending by 1.7 per cent after taking account of special factors, as a "first step" towards putting public finances on an even keel. But he said further steps were needed to reduce a "structural deficit" in federal spending.

In the medium term, he said the government had to close a DM30bn (€15.3bn, $17bn) gap. This had been inherited partially from the previous government of ex-chancellor Helmut Kohl and partially resulted from a recent constitutional court ruling insisting married couples should be given the same child tax allowances as single parents. The government was creating conditions for stable demand through its fiscal policy, Mr Lafontaine said.

German economy, page 15

FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 596 4481. Represented in Frankfurt by Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell, Chairman, and Alan C. Miller, Deputy Chairman. The shareholder of the Financial Times (Europe) GmbH is Pearson Overseas Holdings Limited, 3 Burlington Gardens, London, W1X 1LE. Shareholder of this company is Pearson plc, registered at the same address.
GERMANY:
Responsible for Advertising content: Colin A. Kennard. Printer: Hürriyet International Verlagsgesellschaft mbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu Isenburg ISSN 0174 7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
FRANCE:
Publishing Director: P. Maraviglia, 42 Rue La Boétie, 75008 PARIS. Telephone (01) 5376 8254, Fax (01) 5376 8253. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN 1148-2753. Commission Paritaire No 67808D.
SWEDEN:
Responsible Publisher: Bradley P Johnson. Telephone +46 8 791 2345. Printer: AB Kvällstidningen Expressen, PO Box 6007, S-550 06, Jönköping.

Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
R

Air crash shakes faith in Dutch politics

The mystery of the cargo on the doomed El Al flight has forced prime minister Wim Kok to stumble. **Gordon Cramb** reports

The government of Wim Kok, Dutch prime minister, is facing its biggest difficulty. As a parliamentary inquiry unearths evidence that his two deputy premiers may each have neglected vital issues surrounding the crash more than six years ago of an El Al jet, public confidence in The Hague administrative machine has been shaken.

Neither the free-market VVD party of Annemarie Jorritsma nor the centrist D66 of Els Borst was in office when flight LY 1862, a cargo aircraft of the Israeli carrier, crashed into an Amsterdam apartment block on the evening of October 4 1992, killing more than 50. The cause of the accident, a failure in an engine mounting, became clear within days.

But what was on board the Boeing 747? What lay behind illnesses suffered not only by hundreds of residents of the Bijlmer, the economically deprived outer suburb where the jumbo came down, but also by workers at sites where the debris was stored?

Mrs Borst, health minister since 1994, and Mrs Jorritsma, who held the transport portfolio from that time until moving last year to economic affairs, appear from the hearings to have made less than vigorous efforts to elicit answers.

Since the inquiry began a month ago, it has emerged that:

● Aviation officials knew within days of the crash that the body of the jumbo contained depleted uranium as ballast. In nearly four years as transport minister, Mrs Jorritsma had confined herself to describing this as "possible".

● An air traffic official at Amsterdam's Schiphol airport took a call from an El Al employee on the night of the crash, saying the cargo included explosives and other dangerous materials – and apparently asking him to keep the information under his hat. "They won't hear it from us," came the reply on a tape played to the commission.

To what extent that implied willingness to comply in a cover-up remains unclear, as subsequent evidence indicated that the call was made in error. The El Al worker was apparently reading from the manifest for the inbound flight from New York, and any such substances had been offloaded before the aircraft took off for Tel Aviv.

● El Al was suddenly able to provide papers detailing the nature of 20 tonnes of the freight that had previously been unaccounted for. These specify a seemingly innocuous combination of computers, batteries and microchips, although lawyers acting for Bijlmer victims allege that differing sets of documents are in circulation.

● Dutch police and transport officials failed to collect the full set of these so-called airway bills, which should have been available at the airline's Schiphol office that night, and did not chase them up afterwards.

● On board were as many as three of the ingredients needed to produce sarin, the nerve gas used to deadly effect on the Tokyo subway four years ago by the Aum Shinri Kyo cult. These constituents are not in themselves poisonous, but it has been argued that not enough is known about their behaviour in the fireball the Boeing became.

● Liaison was allegedly minimal between health and transport ministries in The Hague over possible causes of complaints including the disorder known as Gulf war syndrome. Mrs Jorritsma said last week she would quit if the commission, due to produce its report next month, found her negligent.

An opinion poll for the mass-selling Telegraaf daily showed that just over half had a reduced confidence in the country's political life as a result of the Bijlmer revelations. More than three-quarters thought ministers should suffer the consequences if failings were proven.

Although the survey was conducted just before it was made known that explosives were not on board the jet, sentiment has not visibly changed since.

An edgy Mr Kok has stumbled too. He initially insisted that El Al enjoyed no special status at Schiphol, before being forced to acknowledge that, as at other world airports, the Israeli carrier was accorded extra security. And he summarily suspended a handful of managers at the state aviation authority.

According to the Telegraaf poll, even among those who support his PvdA party, barely a third saw that as justified in advance of any conclusions the inquiry will reach.

The Dutch vote on March 3 in elections for provincial councils, which in turn appoint the upper house of parliament. It is the first nationwide test of sentiment since Mr Kok's coalition was returned with an increased majority at a general election last May.

The Bijlmer inquiry will still be in session. It is chaired by Theo Meijer, a previously little noticed opposition MP from the Christian democratic CDA. He had fought for it to be set up, and his tenacity has achieved results where previous investigations failed.

Its ultimate effect will depend on so far unanswered questions, such as why the Boeing's cockpit voice recorder was never found, and whether the identity can be established of the "men in white suits" who were spotted at the scene of the disaster. El Al representatives are likely to be called on to explain the purpose of a cargo charter flight, declared as being empty, which is said to have left for Tel Aviv shortly afterwards.

Emergency loan to Romania bank

By Joe Cook in Bucharest

Romania's central bank yesterday made an emergency loan of 2,500bn leu ($200m) to the country's biggest bank after mass withdrawals by depositors.

The restructuring of Bancorex, a state-owned bank, is a precondition of International Monetary Fund and World Bank loans, which Romania needs if it is to avoid default on foreign debt service payments of $2.9bn this year.

A team from the IMF is currently in Bucharest for talks with the government over a new standby agreement.

Hundreds of nervous depositors began queueing at Bancorex's 52 branches yesterday morning after the resignation on Monday night of the bank's entire executive board. Bancorex, which according to senior managers had no more than $70m of liquidity at the close of business on Monday, yesterday limited withdrawals to $10,000 per customer.

The National Bank of Romania and Bancorex declined to say how much had been withdrawn and other banks in Bucharest refused to comment on whether they had been affected.

A central bank statement issued last night said it would "undertake all necessary measures to continue the operations of Bancorex and to safeguard the payments and deposits of Bancorex customers". The leu remained stable to close at 12,516 to the dollar, a shade lower than Monday's 12,423.

Monday night's departure of Vlad Soare as Bancorex chairman along with his four vice-chairmen was forced by the World Bank after differences between the Bank and Bancorex management over plans to recapitalise and restructure the state-owned bank.

Some 70 per cent of Bancorex's loan portfolio is non-performing. Bancorex's outgoing management had estimated that the bank needed a $1bn rescue package, to include government assistance, World Bank loans and a massive debt/equity swap programme. Bancorex is slated for privatisation by the end of this year. The World Bank has insisted on restructuring and recapitalisation before this goes ahead.

NEWS DIGEST

GERMANY'S GREENS

Trittin drops planned law on atomic power stations

Germany's Green environment minister, Jurgen Trittin, has shelved plans for legislation preparing the way for the shutting of the country's atomic power stations, a day after Bonn had dropped clauses from the law on banning nuclear reprocessing.

The Bonn environment ministry confirmed yesterday that Mr Trittin had agreed to await the outcome of talks with the energy industry on closing the 19 nuclear power stations before proceding with changes to the country's atomic legislation. Officials confirmed that process could take many months. The bill had been due to be discussed in cabinet next week.

Mr Trittin's decision followed talks late on Monday with Chancellor Gerhard Schröder. It came after strong opposition from the energy industry and draft changes which would have increased the compulsory insurance cover for nuclear reactors from DM500m (€256m, $283m) to DM5bn and tightened security checks. Shelving the bill weakens Mr Trittin's hand in negotiations with the energy industry. But Mr Schröder has insisted the exit from nuclear power has to be conducted in agreement with the industry and not "via the back door". **Ralph Atkins, Bonn**

AVALANCHE UPDATE

Seven killed in Tyrol

At least seven people were killed when an avalanche crashed into an Austrian Tyrol village yesterday. By late evening, about 20 people, some of them in critical condition, had been rescued from the tons of snow in the village of Galtuer in western Tyrol. The avalanche warning service in Innsbruck said rescuers continued to search for a further 25 still buried in the snow. But Galtuer was cut off, relying on local rescuers.

The heavy falls of snow caused havoc elsewhere. In north-west Italy, an avalanche tore through the small village of Morgex yesterday, killing at least one person and injuring three others. Some 3,000 people were evacuated from their homes in the Swiss canton of Valais, and more than 50,000 were stranded in villages or resorts.

A 100-strong team spent a third day searching for eight people, most of them French tourists, buried under a 33-foot wall of snow after avalanches at Evolene, south of the city of Sion. Two victims so far have been found. **Reuters and AP, Vienna**

PUBLIC-PRIVATE SECTOR

France plans GMO venture

The French government yesterday announced the formation of a FFr1.4bn (€210m,$237m) venture between the public and private sectors to carry out research into plant genes.

The move was belated recognition that France lags behind investment in bio-technology research as strides are being made in genetically altered plants. The venture will be based round a new group, Génoplante, to be based at Evry outside Paris. The five-year budget will be funded 40 per cent by state-run research bodies and 30 per cent by the private sector – principally Biogemma, Bioplante and Rhône-Poulenc – with the remainder coming from the ministries of agriculture and education.

Rhône-Poulenc said yesterday: "The aim of Génoplante is to give France a global, coherent and competitive means of studying plant genes and then capitalise on such work." **Robert Graham, Paris**

Bonn warns over EU finance reforms

By Ralph Atkins in Bonn and Michael Smith in Brussels

Germany yesterday warned that failure to agree wide-ranging reforms of European Union finances next month could trigger a crisis in the EU and a damaging fall in the euro.

Government officials said yesterday that a collapse of the talks at the Berlin EU summit in late March would convince financial markets that "the Europeans are not in a position to pull their act together".

EU government leaders meet on Friday for an informal summit in Bonn, which the officials described as a "dramatic intermediate" step to sound out possible solutions before the decisive Berlin summit.

The tone of the comments reflected the difficulties faced by Germany, holder of the EU's rotating presidency, in reaching a deal on an "Agenda 2000" blueprint to change budget finances, regional aid and farm policy.

Farm ministers are meeting in Brussels all week to try to agree a deal on agricultural reform, but widespread differences remain. Jean Glavany, French farm minister, said his country had "deep divisions" with Germany, particularly over funding.

In a compromise paper tabled with the presidency, the European Commission, architect of the reforms, yesterday insisted on cuts of 20 per cent in guaranteed prices of cereals, though Mr Glavany said that cuts of 10 per cent would be enough.

"That would mean less compensation and, therefore, a saving," he declared.

The Commission also insists that direct payments for oil-seed farmers be cut to the level of payments for cereals.

However, it has agreed to phase in such changes over three years rather than introduce them in one step.

In another potential concession, the Commission hinted at the possibility of retaining compulsory "set-aside" arrangements that pay farmers to take land out of production. Previously, it wanted set-aside only for emergencies.

In the overall talks, Bonn continues to insist that everything has to remain on the negotiating table. That includes proposals, rejected by France, that national governments should fund a higher proportion of agricultural subsidies.

Germany also still wants a debate on the EU rebate won by the UK in the early 1980s.

Bonn argues that no country could expect to emerge fully satisfied from the talks. It wants a cut in its DM22bn (€11.2bn, $12.5bn) net contribution, but says it has made concessions by acknowledging Bonn would remain a large net payer.

Cresson under renewed pressure to resign

By Neil Buckley in Brussels

Edith Cresson, European Union education commissioner, came under renewed pressure from European parliament members yesterday to resign over allegations of cronyism – in particular that she awarded a research contract to her dentist.

Mrs Cresson was also pressed to explain why the European Commission, the EU executive, terminated a contract this month with an external agency running part of the EU's €620m ($690m) Leonardo youth training programme. At the same time, four cases of suspected fraud at the agency were sent to Belgian police.

The former French prime minister told MEPs only last month that the programme was well run and that no fraud had been found at the contractor.

A non-binding motion in parliament last month calling for Mrs Cresson to resign was defeated by 357 votes to 165. The motion was presented alongside an unsuccessful attempt to censure the Commission over fraud and mismanagement claims.

But, during an ill-tempered grilling by parliament's budgetary control committee yesterday, Mrs Cresson faced new calls to resign from within her own Socialist political family.

Mike Tappin, a British Labour MEP, told Mrs Cresson an atmosphere of "illegality and cronyism... seems to have served to profit the friends and family of your circle" and suggested she should step down. A Labour MEPs' spokesman said Mr Tappin reflected the position of his British colleagues.

Mrs Cresson insisted the award of a contract as "visiting scientist" to her acquaintance René Berthelot, a 68-year-old dentist, in March 1997, followed all the correct procedures.

She dismissed suggestions that Mr Berthelot was recruited to carry out Aids research, but said he was hired to prepare the EU's so-called fifth framework programme for research, where he had experience.

"I needed someone who could shed light on this, and I availed myself of someone that I knew," she said.

On Leonardo, Mrs Cresson said she was still convinced last month that mismanagement problems at Agenor, the external contractor, could be remedied, and only concluded this was not the case at a meeting in early February. She had not seen details of the four suspected fraud cases at Agenor handed to Belgian investigators by Uclaf, the Commission's anti-fraud unit.

Divisions over Europe hit plan to unite France's right

By Robert Graham in Paris

Divisions over European policy have helped scupper the latest attempt to unite France's right around a common list of candidates for the European parliamentary elections in June.

In what has been labelled a "catastrophe" by former President Valéry Giscard d'Estaing, the rightwing opposition to the Socialist-led government will be fragmented into two main groupings and two smaller parties. The European contest will be the first big test of opinion since the 1997 general election.

The picture will be further complicated by the recent split in the far-right National Front, which has produced another two small parties vying for anti-European votes on the far right.

Mr Giscard made a final call for rightwing unity last week. But this has since been brushed aside by politicians who feel they can gain more by going it alone in a voting system based on proportional representation.

"It will be a catastrophe, with the opposition electorate being called to choose between four parties," Mr Giscard wrote in Le Monde.

His plea for unity was chiefly concerned with winning round his own party, the centrist UDF.

However, François Bayrou, the UDF's leader, has been angered by the way the Gaullist RPR has sought to use its position as the largest party on the right to impose its own terms. Principal among these has been the demand that Philippe Séguin, the RPR leader, head any unified list of candidates on the right.

Although the RPR has 138 deputies in the national assembly against the UDF's 70, Mr Bayrou says endorsement of Mr Séguin would give the wrong signals to the electorate.

The UDF prides itself on being pro-European and federalist, while Mr Séguin opposed the Maastricht treaty and has never tempered his euro-scepticism.

"It makes no sense for us as convinced Europeans to fight an election to the European parliament with an anti-European heading the list," said a UDF deputy.

However, DL, a smaller liberal grouping headed by Alain Madelin, a former finance minister, has thrown in its lot with the RPR.

President Jacques Chirac, the RPR's founder, is backing Mr Séguin. Mr Chirac is aware the RPR still harbours serious misgivings about closer French integration with Europe and Mr Séguin's presence gives reassurance.

Charles Pasqua, a former Gaullist interior minister, has already decided to break with the RPR and form his own list on an anti-Europe ticket. Another rightwing anti-European platform is offered by Philippe de Villiers, the euro-sceptic head of the Movement for France.

If a general election were nearer on the horizon, the closer, the right might have felt a greater need for unity. As it is the parties of the right will be using the European elections to measure their respective strengths in any future alliance.

Giscard d'Estaing's call for unity has been brushed aside AFP

MUNICIPAL HOUSING

Stockholm to let tenants buy homes

By Nicholas George in Stockholm

The city of Stockholm has granted tenants the right to buy municipal authority homes in spite of bitter opposition from the Swedish central government.

The right to buy, which was formally granted earlier this week, affects almost a third of dwellings in the Swedish capital. The centre-right city administration says the measure will give citizens more freedom of choice. But the reform has been strongly criticised by opposition politicians, who claim it will increase segregation in a city that still prides itself on providing affordable housing in desirable areas.

"We want to give the people the freedom to buy their homes if they want to," said Carl Cederschiöld, Stockholm's centre-right mayor. "Around one-third of the flats in Stockholm are held by council-run companies; we think that is too much," Mr Cederschiöld said. Municipally owned properties account for about 120,000 of Stockholm's 387,000 homes. Tenants in these apartments will have the right to form condominium associations to buy out the properties.

Annika Billström, leader of the opposition Social Democratic party group, said that if the plans were carried through, municipally owned homes in the centre of the city could disappear by 2000.

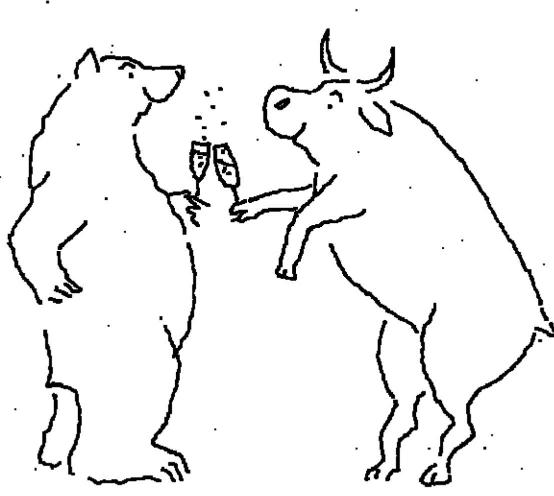
"Stockholm will be a more segregated city, with a city centre and other attractive parts of the city completely dominated by condominiums where people with low or normal incomes will not have the opportunity to live," she said. She added that tenants who had indicated their interest to buy their homes were almost all in the city centre. Tenants in each building will be able to vote on whether to form a condominium association and buy the property. If 51 per cent or more vote yes the property can be bought, with those who voted against remaining tenants of the association.

The municipal authority also plans to sell a minority stake in one of its property companies, which controls about 35,000 homes. The sale could pave the way for a stock market listing of the company in two years.

The Social Democrats have powerful allies a few hundred metres away from City Hall in the national government's finance department. Officials in the Social Democratic administration are working on a new law to increase the majority needed to set up a condominium association to 75 per cent of tenants. The department says the move will defend the rights of tenants who do not vote for the purchase of a property, but it was described as "desperate and stupid" by Mr Cederschiöld.

The mayor rejected the idea that the sale would increase segregation, arguing the city was already segregated and the policy of previous socialist housing policy had only "created a rigid housing market". The likely pricing of the properties is expected to create further controversy. The municipal authority says it will sell properties at market value, but tenants groups say the prices are heavily distorted.

Under the plans, a property will be sold to condominium associations at the same price it would fetch if sold to a private landlord. But members of the association will then be able to sell apartments individually at a price which, according to some experts, will be up to double the amount the member paid in the first place.



JS strategy
n Kosovo is
ndermined

GERMANY'S GREENS

Trittin drops planned law on atomic power stations

AVALANCHE UPDATE

Seven killed in Tyrol

PUBLIC-PRIVATE SECTOR

France plans GMO venture

WORLD TRADE

Chinese PM backs effort to join WTO

By James Kynge in Beijing

The US and China agreed yesterday to inject new momentum into Beijing's long-stalled bid to join the World Trade Organisation.

Lawrence Summers, US deputy treasury secretary, said he had received an expression of "very great interest" for Beijing's accession to the trade body from Zhu Rongji, China's premier.

The attitude of the Chinese premier towards WTO entry has been seen as a crucial precondition to progress on the issue during a key summit in April between Mr Zhu and President Bill Clinton, scheduled for early April.

"I emphasised the United States' very great interest in China's acceding to the WTO on commercially viable terms and that we are prepared to work very hard toward that objective if China was as well," Mr Summers said.

But Mr Summers warned that the window of opportunity that existed for a deal on China's admission was temporary. If no agreement was reached over the next few months before a new WTO round starts later this year, Mr Summers said, China's 13-year bid could be set back for "some sizeable period".

Kenneth Lieberthal, the US national security council senior director for Asia, who also met Mr Zhu, said: "The Chinese side says they feel there is a good chance for an agreement."

But both Mr Summers and Mr Lieberthal were careful to emphasise that any accord with China would have to be palatable to US businesses. If US businesses did not consider the content of any agreement to be in their interests, it could not go forward, Mr Lieberthal said.

"The hard bargaining is yet to come," Mr Lieberthal said.

The main sticking points in negotiations include China's reluctance to open its farm sector, financial services, telecoms and distribution businesses to significant levels of competition. Beijing is hoping that the US will allow it longer "transition periods" for the liberalisation of competition in such areas following its entry into the WTO.

Another thorny issue is Beijing's insistence that it be admitted on the relatively concessionary terms applied to developing nations. The US says the size of China's export sector mean that it must be regarded as a developed country.

Foreign diplomats said that even with Mr Zhu's personal attention, it might be difficult for Beijing to convince various ministries within his government of the need to allow greater foreign competition at a time when the domestic economy was slowing and millions of workers were being made redundant.

Separately, Mr Summers said that Mr Zhu had reiterated China's pledge not to devalue its currency, the renminbi.

Mr Summers' visit is the first in a flurry of diplomatic activity ahead of the April summit. Madeleine Albright, the US secretary of state, and Charlene Barshefsky, the US trade representative, are due here later this month and early next.

Summers at a press briefing in Beijing yesterday. Zhu's attitude was crucial to China's entry bid, he said — Reuters

Romania projects come to fruition

By Joe Cook in Bucharest

Three big foreign investment projects are coming to fruition in Romania, in spite of a possible end to government incentives.

Renault, the French carmaker, is in the final stages of negotiations to acquire a 51 per cent stake in Dacia, Romania's state-owned carmaker, and is expecting to make a formal announcement next month. Although Renault is understood to be offering little more than $30m for the stake, Louis Schweitzer, Renault's chairman, said his company intended to make substantial investments in Dacia so that the company would "reach international quality and competition standards".

Meanwhile, OTE, the Greek telephone operator that last year paid $675m for a 35 per cent stake in RomTelecom, Romania's fixed line telephone monopoly, signalled its intention to invest $2.7bn in RomTelecom over the next five years.

OTE's investment is aimed at digitising RomTelecom's network, installing 1.5m new lines, and developing the company's patchy rural network. Under OTE's plan, all villages with populations of over 100 people would receive at least one public telephone box by 2004.

Germany's Continental, Europe's second biggest tyremaker, at the weekend laid the foundation stone for a DM100m (€51m, $56.7m) greenfield investment in a tyre factory in the northern town of Timisoara. The plant will employ 1,000 people and production is scheduled to begin by the end of next year.

Both Renault and OTE unveiled their plans after Romania's Foreign Investor Council, which represents 60 international companies that have together invested more than $2.5bn in Romania, criticised the government proposals to suspend foreign investor incentives as a "serious breach of faith".

EU challenges Japan over telecoms deregulation

By Michiyo Nakamoto in Tokyo

Japan's plans for deregulating its telecommunications market risk breaching its international commitment to liberalisation, the European Commission warned yesterday.

Liberalisation measures in Japan over the past few years have increased competition, reduced telecoms rates, and encouraged foreign carriers to enter the market.

But Gérard Depayre, deputy director general of the Commission, the European Union's executive, told Japanese officials certain measures the Japanese government were considering under a deregulation programme to be adopted next month, failed to live up to its international commitments and could undermine all the benefits of telecoms liberalisation.

Mr Depayre noted that high interconnection charges and rules governing the right to lay underground cable continued to obstruct competition in Japan's telecoms market. The government was planning to approve only a modest reduction in charges.

The fees charged by NTT, Japan's dominant domestic carrier, are still 60 to 100 per cent higher than the mid-point of the EU's recommended range and in some cases nearly 200 per cent higher than the low end of the EU recommended range. NTT's high interconnection charges remain a burden for competitors which rely on NTT's local network for the last stretch to the user's home or office.

Furthermore, the Commission is concerned that proposals to leave decisions on the right of way to the discretion of the infrastructure owners are incompatible with Japan's commitment to ensure access to privately owned structures for telecoms operators.

It was 30 times more expensive to lay cable in Tokyo than in London, noted the Commission. Furthermore, there were 28 different laws regulating rights of way, involving 11 different ministries.

The US has raised similar criticisms in connection with rights of way and NTT's interconnection charges. The measures being proposed by Japanese government would "neither facilitate nor ensure access to rights of way on a fair, reasonable and affordable basis," the US government said.

The Japanese government has failed to propose measures to ensure that interconnection rates will be cost-oriented and that anti-competitive cross-subsidisation will be prevented, as it is committed to doing in the WTO basic telecommunications agreement.

Concern is growing in both the EU and the US that Japan's deregulation effort is losing momentum.

Mr Depayre noted that more than half of the Commission's proposals on deregulation were not taken into consideration by the Japanese government. Only 2 out of 19 deregulation requests by the Commission involving the telecoms market, were addressed.

"Everybody recognises that deregulation is necessary, but when it comes to specific issues you meet with a certain resistance," Mr Depayre said. There was a feeling that regulatory reform was advancing in a patchy way and reforms were adopted "as grudging concessions", he said.

Grey import move could cut profits

By Guy de Jonquières

Abolishing European Union restrictions on cheap "grey" imports would be likely to produce only small immediate reductions in retail prices of consumer products, but could cut trademark owners' EU profits by as much as 35 per cent, according to a report.

It estimates that the biggest retail price falls would be less than 2 per cent. The sectors most affected would be consumer electronics, domestic appliances, footwear and leather goods, musical recordings, motor cars and cosmetics and perfumes.

The largest profit declines would be in the domestic appliances and consumer electronics industries, which have relatively low profit margins, the report says.

Liberalising grey imports of these products would be likely to result in small increases in sales volumes in the short term, encouraging slightly higher EU production in these sectors and the creation of around 4,000 jobs.

In the longer term, however, freeing grey imports could lead to "radical" changes in the business strategies of branded manufacturers, affecting the location of production, pricing, marketing, product development and distribution.

The unpublished report was ordered by the European Commission and is expected to form the basis for discussions in Brussels on whether to relax the EU's trademark directive, so as to remove obstacles to grey imports from outside the EU.

The Commission asked National Economic Research Associates, an economic consultancy, and S.J. Berwin, a London law firm, to conduct the report after the European Court of Justice decided last year that the directive prohibited such imports.

Sweden wants the Council of Ministers to amend the directive. But most branded manufacturers oppose a change, and some have recently stepped up efforts to stop grey imports from markets where their products sell for less than in the EU.

The report says the economic consequences of amending the regime would be greatest if the EU decided unilaterally to allow grey imports from anywhere in the world. The impact would be much smaller if the EU only admitted grey imports from foreign countries with which it had negotiated reciprocal agreements on trademark rights.

The report says even sweeping liberalisation would probably have only a small effect on retail prices, because the sources of cheap "grey" imports were too small to meet demand in a market as large as the EU.

It notes that although retail prices of many consumer products are lower in the US than in the EU, they are much higher in Japan.

Branded manufacturers might also react to liberalisation of grey imports by abandoning small markets where prices were low, rather than risk seeing cut-price competition undermine their EU profits, the report says.

It finds that liberalisation would be likely to have little effect on the alcoholic and soft drinks, confectionery and clothing sectors, where grey imports are limited by a number of practical constraints.

INTERNATIONAL

CORRUPTION WASHINGTON WANTS GLOBAL MEASURES TO COMBAT BRIBES PAID BY INTERNATIONAL COMPANIES

US presses drive against business bribery

By Nancy Dunne in Washington

It is anti-corruption week in Washington, with no fewer than three conferences devoted to the subject of bribery in international business.

The events take place one week after the launch of the anti-bribery convention of the Organisation for Economic Co-operation and Development. Thus far, only 12 nations have ratified the compact. Twenty-two have not, including France, Belgium, the Netherlands and Italy.

The anti-corruption drive was a US initiative, begun when the Clinton administration noted that the 1977 US law prohibiting businessmen from bribing foreign officials put the US at a competitive disadvantage. Since there was no way the president could ask Congress to overturn the law, it began to urge other OECD countries to follow suit.

Al Gore, the US vice-president is expected to press the drive forward today at a State Department gathering of justice, law enforcement and security officials from 80 countries. As second in command of what is probably the most investigated administration in US history, he will ride the anti-bribery issue into his presidential campaign, perhaps hoping that it may combat the inevitable recapitulation of his role in 1996 fund-raising scandal.

The part to be played by the private sector in combating bribery was the subject of an OECD conference on Monday and yesterday. A third conference today on Capitol Hill also focuses on the role of the private sector.

Speaking on Monday, John Brademas, chairman of the National Endowment for Democracy, argued the need to fight corruption to preserve struggling democracies. The awareness of the costs of corruption has been heightened by scandals around the world. "No continent has gone unscathed," he said.

Irene Hors, head of OECD corruption research, said there was an emerging consensus among "anti-corruption professionals" that it should be fought with a mix of prevention and repression measures. It was not enough to replace corrupt leaders, she said. "Mobilisation of civil society is crucial."

Frank Vogl, vice-chairman of Transparency International, a global anti-corruption group, said the next steps in the corruption battle included: actions to compel countries to end the tax deductibility of foreign bribes; education of corporations; progress in the countries of the Association of South-East Asian Nations and putting the corruption issue on the agenda of the World Trade Organisation.

There needed to be more transparency in every area, he said, including among the non-governmental organisations – who they are, who finances them and their agendas. The Inter-American convention under the Organisation of American States must be strengthened – and the US ought to overcome the opposition of Senator Jesse Helms, chairman of the Senate foreign relations committee, and join it.

The Washington-based Council on Hemispheric Affairs, a liberal private think tank, yesterday also criticised the US, which it accused of failing vigorously to apply its Foreign Corrupt Practices Act.

"Between 1994 and 1996 [the most recent years for which such statistics are available], the Justice Department investigated only 11 cases and did not prosecute a single one," it said. "It is estimated that during this period there may have been hundreds, if not thousands of instances of US business executives corrupting Latin American officials."

Caspian oil bonanza dreams turn sour as persistently low prices sap profits

High transport costs and lack of a local market mean the region's potentially huge resources are barely viable at current prices. **Carlotta Gall** reports

Persistently low prices are depressing many a dream in the Caspian oil business. Some foreign oil companies are pulling out or searching for new partners. Others are cutting back and waiting for better times. All are sobering up after recent years of heady optimism.

Development of the Caspian's oil reserves, expected to be one of the main growth areas for the oil industry over the next decades, has been put back by several years, oil executives in the region say. Some of the early participants are disappearing, and the majors, concentrating on a few big reservoirs, are postponing further exploration and development.

In Kazakhstan the low oil price is provoking a flurry of negotiations as small independent companies are incurring heavy losses. Much of the problem is the high transportation costs from this vast and remote central Asian country, and the lack of a local market.

"We are meeting our licence obligations but it is a very heavy burden," said the chief of one small independent company. "There are those who cannot meet the demands. You cannot operate on $30 a ton," he said.

Export to the international market from the east side of the Caspian Sea is costing as much as $7 a barrel in the absence of an export pipeline. Turkmenistan and Kazakhstan need oil prices of $15 a barrel to be viable, suggests one oil executive.

At least one foreign oil company in Kazakhstan is reported to have capped its wells and temporarily abandoned production. Others are trying to sell out, among them Asian companies hit by the crisis at home.

"We haven't any official insolvencies yet but we are seeing a lot of behind-scenes negotiations," says Alexander Lesser, an American lawyer based in Almaty who advises investors in the oil sector.

Low oil prices have been accompanied by the fallout from the Russian economic crisis and the subsequent waning of investor confidence in the whole region, Mr Lesser says.

"People cannot get finance. For smaller companies the lack of finance is like a lack of air. The smaller companies are suffocating."

"It is delaying development by three to five years," Mr Kangas says of the oil price low. "The volumes expected by 2000 will be arriving more like in 2003."

Production is down at the Karachaginak field, operated by a consortium led by British Gas and Texaco, due to a combination of low oil prices and the Russian crisis which has left Russian customers unable to pay.

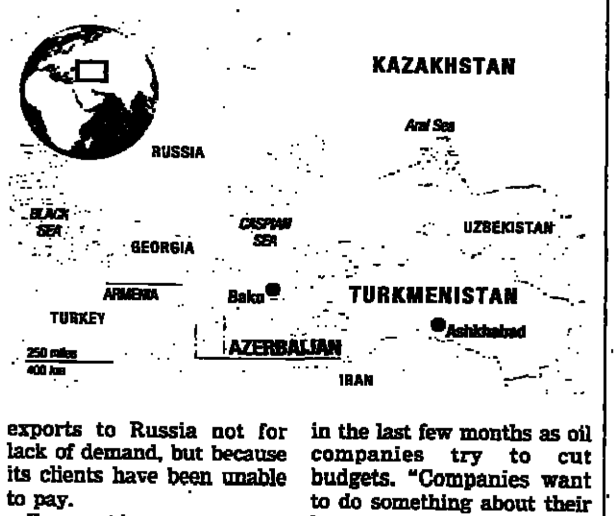
In Azerbaijan the trend has forced the Azerbaijan International Oil Company (AIOC) to cut staff in recent months and delay the next stage of development of its offshore oilfield for six months. It has also put off choosing a route for a main export pipeline as companies balk at the price.

Turkmenistan and Kazakhstan need oil prices of $15 a barrel to be viable

The bigger companies are also retrenching and postponing development plans.

Kazakhstan's star operation, Tengizchevroil, has not slowed production but has postponed all other development projects, says Mike Kangas, government relations manager in Almaty.

The cash-strapped state oil companies of these former Soviet republics are suffering too. The Azerbaijan state oil company SOCAR has stopped all oil exports to Russia not for lack of demand, but because its clients have been unable to pay.



Executives of Kazakhstan's state oil company, Kazakhoil, which exports crude by tanker and then rail across Azerbaijan, arrived in the Azeri capital, Baku, last month to plead for a 25 per cent cut in Azeri transport tariffs.

Amid the cuts, there are a few companies clearing up. Kevin Foo, head of Dabney Industries of the UK, has branched out from mining into oil in Kazakhstan. "This is the time to deal," he says. "Because companies are leaving Kazakhstan and big and small ones are having trouble. It allows people like us to play."

Yan Tomczyk, who runs a supply management company in Kazakhstan, has been swamped by business in the last few months as oil companies try to cut budgets. "Companies want to do something about their bottom line and they are looking to do outsourcing," he says. "I'm so busy I've got a smile on my face."

In Azerbaijan, as the Caspian International Petroleum Company announced it was closing, UK company Ramco was celebrating the ratification of a new production sharing agreement. Buoyed by a source of cash from its share in AIOC, Ramco is luckier than most small independents.

"This is going to be a tough year, tougher than 1998," warns Steve Remp, chairman of Ramco. "Anyone carrying debt or high transportation costs, will find himself in trouble. If you run out of cash, you are dead."

NEWS DIGEST

UN PANEL

Review begins of Iraqi disarmament efforts

A long delayed review of the United Nations effort to disarm Iraq finally got under way yesterday in a 20-member panel which must make recommendations to the Security Council by April 15 on how to revive or replace the weapons inspections programme, in suspense since Baghdad halted co-operation in December.

Celso Amorim, a former Brazilian foreign minister who assembled and chairs the panel, excluded Richard Butler, the controversial chief weapons inspector but not his American deputy Charles Duelfer. Insisting that all of its weapons of mass destruction were accounted for, Iraq sought a comprehensive review several months ago but still voiced reservations about the panel that emerged as a compromise promoted by Council members Argentina, Brazil and Canada.

A mix of technical and political representatives, the group is expected to divide along partisan lines, with Russia, France and China opposing the firm stand of the US and the UK. **Michael Littlejohns, New York**

SOUTH LEBANON

Syria urged to halt attacks

Benjamin Netanyahu, Israeli prime minister, yesterday called on Syria to end attacks by Hizbollah Islamist guerrillas on Israeli troops in south Lebanon, saying Syria had the power to stop the attacks. Syria, the main foreign political power in the country, has 35,000 troops stationed there. Mr Netanyahu's demand came after Shia Lebanese Hizbollah guerrillas killed three Israeli soldiers on Tuesday in the so-called security zone in south Lebanon which Israel has occupied since 1985. Last year, 21 soldiers were killed in the 15 kilometre deep zone.

The attacks on Israeli soldiers followed a series of Israeli air raids on south Lebanon in recent days. But military analysts said they might have been triggered by Israel's decision to expand the security zone. Last week, it incorporated the village of Amoun, which Lebanon said amounted to a move by Israel to expand the security zone.

● Mr Netanyahu yesterday formally appointed Meir Sheetrit as finance minister, his fourth – including himself – in 33 months. **Judy Dempsey, Jerusalem**

NARCOTICS CONTROL

Global surge in drug abuse

Global abuse of prescribed and illegal drugs is on the increase, in spite of heavier government spending on health campaigns and crop eradication, according to a report yesterday by the International Narcotics Control Board, which monitors United Nations treaties on the subject. In its annual survey, the INCB found a dramatic upsurge in the use of prescribed sedatives and stimulants in developed countries, as well as the spread of designer drugs such as ecstasy into most countries of Latin America, Asia and the former Soviet Union.

Mexico, Guatemala, and Colombia had joined countries such as Iran and Afghanistan as important sources of opiates, and this had led to an increase in the purity and popularity of heroin among young people in the US. **Mark Mulligan, Santiago**

EU challenges Japan over telecoms deregulation

Review begins of Iraqi disarmament efforts

Syria urged to halt attacks

Global surge in drug abuse

HUMPHREY-HAWKINS TESTIMONY GREENSPAN EXPLAINS WHY PRICES HAVE NOT RISEN AS GROWTH HAS ACCELERATED

Inflation's great disappearing trick

By Gerard Baker in Washington

Alan Greenspan has long been known for his penchant for mystery thrillers. Yesterday he used his half-yearly Humphrey-Hawkins testimony to the Senate banking committee to try to crack the biggest case US monetary policymakers have been grappling with for the last three years: whatever happened to inflation?

Even as economic growth has accelerated since 1995 – to an annual rate at the end of last year of over 4 per cent – inflation, the traditional accompaniment to above-trend growth, has not only refused to take off, but actually fallen to its lowest level in a decade.

The chairman of the Federal Reserve explained yesterday his latest thinking on the enigma.

It is, he said, probably the result of a combination of short-term lucky breaks that seem certain to disappear, and some longer-term fundamental changes to the way the economy works that could keep inflation subdued for a while.

"Recent experience does seem to suggest that the economy has become less inflation-prone than in the past, so that the chances of an inflationary breakout arguably are, at least for now, less than they would have been under similar conditions in earlier cycles."

At the heart of the puzzle is the labour market. The strong demand growth of the last few years has pushed the unemployment rate down to 4.3 per cent, its lowest in almost 30 years. Economists used to believe that once the rate dipped below a level of about 5.5 per cent, employers would be forced to pay more and more to attract workers, thereby raising wages, the largest part of their cost base, and ultimately being forced to raise prices.

But while wage growth has picked up a little in the last three years – from an annual rate of about 2.5 per cent three years ago to just under 4 per cent today – there has been no sign of the sort of acceleration commonly seen in the past.

Mr Greenspan used to think it might be because workers felt less secure in the modern technology-driven economy and so moderated their wage demands. But he acknowledged yesterday that was probably not the case, since signs of insecurity were fading, while wage increases remained moderate.

Other, temporary factors had helped restrain or offset overall labour costs – falling commodity prices, the strong dollar, lower health insurance premiums, lower pension contributions, the Fed chairman added.

But that would not explain the apparent relative weakness of hourly wages themselves. Mr Greenspan said he now believed the key might be in the absence of pricing power among companies. Employers can no longer accommodate strong demands for wage pressures, because competitive pressures on a company's pricing power are much greater than they have been in the past.

The answer might lie in capital investment, especially in high technology equipment, which has surged in the last five years. Companies have earned much higher rates of return on these investments than they had experienced on previous investment.

"The newer technologies have made capital investment distinctly more profitable, enabling firms to substitute capital for labour far more productively than they would have a decade or two ago," said Mr Greenspan.

This surge in investment has not only held costs in check, it has also increased industrial capacity faster than factory output has risen.

"The resulting slack in product markets has put greater competitive pressure on businesses to hold down prices, despite taut labour markets."

But lest anyone think the Fed chairman was arguing that wage inflation had been conquered, he entered a note of caution. The improvement in companies' profitability produced by these big investments had indeed eased inflationary pressures. But demand was growing so strongly in the economy that, in spite of the improved productivity the investment had wrought, workers were still in short supply.

Sooner or later, if growth continued at current rates, even the newly efficient US corporate sector would run out of workers. At that point more traditional theories of supply and demand for labour would take over and inflation would be back from the grave.

Bank laws 'threaten our world dominance'

By Richard Wolffe

The "global dominance of American finance" will be undermined unless Congress overhauls the archaic US banking laws quickly, Alan Greenspan, Fed chairman, testified yesterday.

Speaking to senators after his economic report, he said financial institutions had been forced to take "elaborate steps to develop and deliver new financial products and services in a manner that is consistent with our outdated laws".

The Depression-era and postwar laws which govern US banking largely separate banks from insurers and brokers. Regulators including the Federal Reserve have relaxed loopholes to allow their institutions to offer new products, but the process has been piecemeal and complicated.

"Without congressional action to update our laws, the market will force ad hoc administrative responses that lead to inefficiencies and inconsistencies, expansion of the federal safety net, and potentially increased risk exposure to the federal deposit insurance funds," Mr Greenspan said.

However, along with the US Treasury, the Fed has proven one of the big stumbling blocks to recent efforts to reform financial legislation. In particular, the Fed and Treasury have repeatedly clashed over the corporate structure of the new financial conglomerates – and over which of the two organisations would become their leading regulator.

Mr Greenspan yesterday attempted to blunt the Treasury's opposition by insisting that its supervision of national banks would be unaffected by the current draft legislation. He urged senators to leave unchanged the combination of regulation between the independent Fed and the executive government's Treasury.

• On Monday, the Treasury's leading bank regulator attacked the Fed in thinly veiled terms for threatening the safety of the banking system with its support for the new laws.

Divisions in Washington over dollarising abroad

By Stephen Fidler in Washington

There were differences within the US government on how to respond to governments seeking Washington's co-operation in adopting the US dollar as their national currency, Alan Greenspan said.

Answering questions before the Senate banking committee, Mr Greenspan hinted that the differences were between the Fed and the Treasury, but said a unified position should emerge soon. He suggested the Fed was concerned about the risks of assuming the status of lender of last resort for a foreign banking system.

"We cannot be a central bank for the US and others. And in that context we have to be careful not to be perceived as creating a safety net for institutions in dollarised economies," he said.

Mr Greenspan said discussions within the US government had followed an approach by Argentina to seek a more formal monetary arrangement with the US. But he suspected many other countries were thinking of adopting the dollar.

"I don't think there's a unanimity as yet in the American government on exactly how our views should be consolidated into a central view... I would suspect that we will have within a short time a unified position between the Treasury and the Fed as the crucial areas of government which must address this issue," he said.

He said there was no reason to inhibit the unilateral dollarisation of the economy, such as undertaken by Panama and Liberia.

He spoke of the potential stabilising effects if more countries adopted the dollar – and not only for those countries that adopted it. But it would also potentially create tensions within the dollar area. "We have to be careful to remember that our monetary policy is first and always for the United States," he said.

On Latin America, Mr Greenspan said that although the situation in Brazil was uncertain, there had been limited contagion to other countries thus far. "Apparently, the slow onset of the crisis has enabled many parties with Brazilian exposures to hedge those positions or allow them to run off," he said.

"With the net exposure smaller, and increasingly held by those who both recognised the heightened risk and were willing to bear it, some of the elements that might have contributed to further contagion may have been significantly reduced."

NEWS DIGEST

REAL COMES UNDER FRESH PRESSURE

Brazilian currency falls through R$2 barrier

The Brazilian currency fell through the psychologically important barrier of R$2 to the dollar yesterday as lack of investor confidence continued to weaken the currency.

Economists said that heavy maturities of international bonds and loans, which were not being rolled over by overseas lenders, were putting the currency under renewed pressure. By mid-afternoon yesterday, the currency was trading at R$2.03 to the dollar, against its closing point on Monday evening of R$1.97. This was the lowest level of the Real for three weeks, when rumours about a freezing of bank deposits prompted heavy selling and led the currency to fall to R$2.15 at one stage. The Real has now devalued by 40 per cent since the government abandoned its peg to the dollar on January 13.

Market sentiment was also affected by the news that the rise in prices was gathering speed: According to the University of São Paulo's Fipe index, inflation in the four weeks to February 14 was 1.03 per cent, compared to 0.75 per cent in the previous four-week period. Food prices and transport costs showed the largest rises.

Economists said investors would remain nervous at least until Brazil had concluded negotiations with the International Monetary Fund over revised terms for a $41.5bn rescue package. Amaury Bier, economics secretary at the Brazilian finance ministry, is in Washington to complete the talks. **Geoff Dyer, Rio de Janeiro**

ARGENTINE POLITICS

Rivals unite to face Menem

Two leading rivals for the presidential nomination of Argentina's ruling Peronist party have joined forces in a direct challenge to the power of President Carlos Menem.

Eduardo Duhalde, the governor of Buenos Aires province, and Ramon "Palito" Ortega, the former social welfare secretary, said on Monday night they would form a joint ticket to fight the party's presidential primaries on April 11.

Mr Duhalde, governor of the country's wealthiest and most popular province, is locked in a battle with Mr Menem for control of the Peronist movement. Mr Menem, barred under the constitution from running for a third consecutive term in October, has long sought to frustrate Mr Duhalde's presidential ambitions, and their relationship has become one of bitter enmity. The Peronist party has a habit of rallying at the last minute behind its chosen candidate. However, the party is rapidly running out of time to form a united front against the opposition Alliance presidential candidate, Fernando de la Rúa, mayor of Buenos Aires. **Ken Warn, Buenos Aires**

MICROSOFT TRIAL

Top executive under attack

A senior Microsoft executive was yesterday accused in court of fabricating evidence about the company's contacts with Netscape Communications, its internet rival.

The accusations by the US government came as part of a second day of sustained attacks on the credibility of Dan Rosen, Microsoft's general manager of new technology and the company's leading contact with Netscape.

Mr Rosen had earlier told the Microsoft monopoly trial that Netscape itself had fabricated its account of a controversial meeting between the two companies in June 1995.

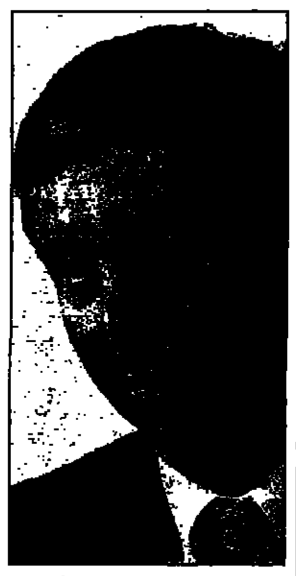
The US government and 19 states say the meeting was the centrepiece of a concerted and illegal strategy to carve up the internet software market with its rival. When Netscape refused to take part, Microsoft allegedly set about closing-down its channels of distribution and giving away its own rival product free of charge.

But under cross-examination yesterday, Mr Rosen was forced to retract parts of his own evidence and acknowledged that Netscape's account of the meeting was partly accurate. **Richard Wolffe, in Washington**

Seek the middle of the road, not the edge of the cliff, Republicans urged

Moderates try to reassert themselves against their party's 'Faustian bargain' with far right, reports **Deborah McGregor**


Amo Houghton


Fred Upton

Exasperated with what they regard as the disastrous tactics and big-foot dominance of the right wing of their party, Republican moderates are fighting to reassert their influence, using some of the same tactics that have worked so well for their conservative brethren in the past.

Armed with polls showing that the Republican party is in deep trouble with voters, and guided by a strong instinct for survival, party moderates have mounted a series of mini-revolts in recent weeks. From a fierce battle in California over who will control the state party apparatus, to newspaper ads urging their colleagues in Congress to steer a more middle-of-the-road course on policy issues, moderate Republicans are determined to restore the party's political appeal – and thus its electoral prospects.

"Our language too often has been heard as mean, judgmental and partisan," declared the Republican Main Street Partnership, representing a wide cross-section of moderate party officials, elected representatives and business people, in an open letter to Congress this week. "We must restore dignity to our debate, civility to our conversations and compassion to our perspective. We need a new language and a new voice."

The Partnership grew out of a lunch discussion last year among several frustrated Republicans in the House of Representatives and has since ballooned into a coalition of more than 140 members chaired by John McKernan, former governor of Maine. The group includes 50 elected officials, including Representatives Fred Upton of Michigan, Rick Lazio of New York and Amo Houghton of New York.

It has also attracted the support of a growing number of business people alarmed at the party's seeming obsession with social issues, such as abortion, and political vendettas, such as impeachment, at the expense of a practical economic and legislative agenda. Business members include a number of chief executives – Roger Ackerman of Corning, William Bradford of Dresser Industries, and Charles Heimbold of Bristol-Myers Squibb and David Kearns, former chief executive of Xerox.

In California, meanwhile, a battle for the leadership of the state party has exploded into open warfare between moderates and conservatives, stemming from the recent assertion by the leading candidate for the Republican state chairmanship that "killing our babies is the issue of the century... cutting taxes or any other issue pales in comparison."

That statement enraged moderate California Republicans, who are already concerned that women and moderate voters are deserting the party in droves. It could all lead to an embarrassing spectacle when the party convention is held in Sacramento on Sunday. Several presidential contenders are expected to attend, and state officials are desperately searching for a way to avoid a public debacle.

Other groups that have operated on the fringe of the party are using the current mood to reinforce their long-standing frustrations. The Log Cabin group, which with 10,000 members is the largest gay Republican organisation, recently launched a determined campaign, entitled Strategy 2000, aimed at "confronting gay-bashing and extremism by the far right within the Republican party".

In a letter to Republican members of Congress, Log Cabin recently warned that unless the party "confronts the growing faction of the far right within its ranks, it will be crushed in the 2000 elections".

The group cited a poll it had commissioned showing that a majority of Republicans (53 per cent) said they would be more likely to support a Republican candidate for president in 2000 who confronts the religious right "rather than pandering to it". In addition, the poll found that a majority of voters aged 18 to 29 would be more likely to support such a candidate, as would majorities of those who voted for Bob Dole and Ross Perot in the 1996 election.

"This Faustian bargain with the far right is eroding the party's core strength," argues Richard Tafel, executive director of the Log Cabin group. "The leadership needs to wake up to the fact that it has not only failed to bolster the party, but it holds the seeds of the party's destruction."

Moderate Republicans define themselves as more tolerant on social issues than their hardline conservative counterparts and many take a different tack on fiscal issues such as tax cuts. Many moderates support a woman's right to abortion and do not demand, as most conservatives do, that the party take a strong stand against homosexuality.

On tax cuts, moderates have aggressively opposed the conservative congressional leadership's proposed 10 per cent cut in income tax rates across the board. Led by Nancy Johnson of Connecticut, moderates prefer a more targeted approach, similar to that contained in President Bill Clinton's recent budget.

In recent weeks, with Americans showing little excitement over the party's large tax cut proposal, Ms Johnson has garnered substantial support for a modest tax package she plans to introduce in the House next month. Included would be tax breaks for married people, self-employed workers who purchase their own health insurance and people who need long-term healthcare. Ms Johnson's approach carries a price-tag of about $100bn over five years, far less than the projected $360bn cost of the 10 per cent rate reduction.

Meanwhile, many in the party are hoping George W. Bush, a conservative who talks of putting a "compassionate" face on Republicanism, will present a unifying force if he decides to run for president.

Congress and Clinton make up

President Bill Clinton met congressional leaders for the first time in 19 months yesterday, with all sides pledging to work together on a legislative agenda in a new post-impeachment era of improved co-operation, **Deborah McGregor writes.**

Three of the Republican participants – Dennis Hastert, Dick Armey, and Trent Lott – all voted to impeach the president.

Nonetheless, congressional leaders said they would try to work with the president on issues, such as the social security pension system and education, where all sides want to see change. "We must find common ground," said Mr Lott.

On the web today
- Trial run for faster internet today
- Guyana set for civil conflict
- Mexican expenses to be curtailed

http://www.ft.com/americas

SABAH POLL FIRST ATTEMPT TO GAUGE EFFECT OF SEPTEMBER'S SACKING AND BEATING OF ANWAR □ LOCAL ISSUES MAY CLOUD THE NATIONAL PICTURE

Mahathir to test popularity in state election

By Sheila McNulty in Kuala Lumpur

Malaysia announced yesterday that the first elections since its political crisis began in September would be held on March 12-13 in the eastern state of Sabah.

Analysts will be watching the outcome closely to gauge how much of the public has turned against the ruling coalition led by Prime Minister Mahathir Mohamad's Umno party since he sacked his deputy, Anwar Ibrahim, in September. Even Dr Mahathir has visited Sabah in recent days to campaign for the coalition.

Sabah's assembly, whose 48 seats are controlled by the Umno coalition, was dissolved on Monday, setting the stage for the poll. Analysts warn that Sabah politics are usually dominated by local issues, so a win or loss in the state cannot accurately predict what challenges might face Umno in the general election that must be held by April 2000.

Malaysian politics is not routinely tested by opinion polls and the government maintains authority over the mainstream media, so there are few other ways to judge whether the tens of thousands of Malaysians who turned out months ago to rally behind Mr Anwar are disenchanted enough with the administration to cast aside at the ballot box the coalition that has ruled the country for decades.

Judging from the street protests calling for Dr Mahathir's resignation in the capital in the past few months, there is no doubt part of the population is angry at how Mr Anwar has gone from the man designated to succeed Dr Mahathir one day to one on trial on charges of sexual misdeeds and abuses of power. Mr Anwar insists the charges were fabricated to remove him as a threat to Dr Mahathir's reign. Regardless of whether they believe him, a cross-section of the population was outraged when Mr Anwar was beaten in police custody.

The opposition has yet to seize advantage of the situation. The two strongest opposition parties have agreed to co-operate as part of the efforts of the wider Coalition for People's Democracy, or Gagasan as it is called in Malay, to run for elections as a political party. But they have yet to resolve their main differences: the all-Moslem PAS champions an Islamic state while the DAP is largely Chinese and insists Malaysia remain secular.

Although PAS has toned down its fundamentalist yearnings in recent months, many Malaysians fear it might revive them if given too much power. They worry, therefore, that there is not an attractive alternative to the Umno coalition.

● Mr Ibrahim said yesterday that police told him their chief at the time was the one who beat him when he was taken into custody in September.

"After the second day, when I was a bit more conscious, police personnel came to me, very emotional, some cried, some apologised. They mentioned the name of Tan Sri Rahim Noor," Mr Anwar said. Abdul Rahim Noor has not had an opportunity to refute the allegations. He resigned as inspector-general of police after an investigation determined that police were responsible for the black eye and bruises with which Mr Anwar emerged from custody.

Public pressure to determine who was responsible forced the administration to set up a royal commission to investigate. Mr Anwar's comments were made to the commission.

NEWS DIGEST

DEFLATION TAKES HOLD

Consumer prices fall 1.1% in Hong Kong

Consumer prices fell 1.1 per cent in January, the Hong Kong government reported yesterday, providing further evidence that deflation is taking hold in the territory. The composite inflation index has now declined three months in a row.

January's figures compared with a fall of 1.6 per cent in December. December's drop was more pronounced because of the effect of a rebate in local property taxes in the fourth quarter last year.

"The figure is better because of one-off factors, but the trend is the same. It is going to get worse in the next few months," said Andy Xie, an economist with Morgan Stanley Dean Witter. He forecasts prices will decline by 2 per cent this year.

Prices declined across a wide spectrum. Consumers paid less for clothing and footwear, durable goods, miscellaneous services and food bought away from home. Discretionary spending has plummeted in the face of rising unemployment and a prolonged slump in the property prices and the stock market. **Rahul Jacob, Hong Kong**

Profile: Lee Ka-shing, Page 22

BANGLADESH POLITICS

Three die in opposition strikes

Three people were killed and more than 100 wounded in a spate of bomb blasts and clashes in Bangladesh yesterday as opposition parties enforced a nationwide strike to block local elections, police and witnesses said.

Voting on the first day of the polls was generally peaceful, except for a few places where supporters of rival candidates fought over attempts to stuff ballots or snatch ballot boxes, police and poll officials said.

One man was killed by a home-made bomb that exploded on a street in the capital, police said. Hundreds of pro-government activists marched through Dhaka with the dead body, witnesses said.

A soldier died in gunfire in the southern port of Chittagong during a clash between strike supporters and opponents, security officials said. One man was killed when a bomb he was making accidently exploded in the southern coastal district of Gournadi, police said. "He was apparently making bombs for use during the strike," one officer said.

An alliance of three main opposition parties, including the Bangladesh Nationalist party, the Jatiya party and Jamaat-e-Islami, called the strike to try to thwart the municipal vote and press for the resignation of the chief election commissioner, Abu Hena, whom they accuse of pro-government bias. **Reuters, Dhaka**

DEATHS IN INDONESIA

Christians and Moslems fight

At least five people were killed and 12 wounded when Indonesian police fired on fighting Christians and Moslems in the eastern spice island of Ambon yesterday, the official news agency Antara reported.

The bloodshed came as thousands tried to flee the island after at least 160 people died last month in sectarian clashes. "We are in a killing ground now," said one resident who works for a support group for the victims from previous unrest. The latest violence erupted yesterday after a home-made bomb exploded and several houses were torched in villages on the outskirts of Ambon city, 2,300km east of Jakarta, Antara said. A local journalist told Reuters he had seen at least three bodies.

Analysts blame much of the violence sweeping Indonesia on a power struggle between unidentified political groups in the countdown to the June 7 parliamentary election. **Reuters, Jakarta**

SINGAPORE RULING

Exotics ban for funds

The Monetary Authority of Singapore, the city-state's *defacto* central bank, has prohibited insurance funds from using certain exotic or complex derivatives, in addition to various products not listed on a regulated exchange.

"Derivative instruments have gained complexity over the year, with the emergence of financial engineering," the MAS was reported to have said in a policy notice. "The risks of these complex instruments may not be easily understood by end-users, and insurers should refrain from using them." It banned "use of complex or exotic derivatives with substantial gearing". The MAS also barred insurance funds from using derivatives that are not listed on a regulated exchange, except forward contracts, as well as currency and interest-rate swaps. **Sheila McNulty, Kuala Lumpur**

Concern at the return of Philippine old guard

Unease is growing at come-back to power of many of those overthrown in the uprising against President Marcos, Tony Tassell writes

President Joseph Estrada at celebrations yesterday to mark the overthrow 13 years ago of Ferdinand Marcos, the late dictator AP

For the first time since people's power overthrew Ferdinand Marcos 13 years ago, this week's anniversary celebrations were overseen by a president who was not an active participant in an uprising that inspired a generation both in the Philippines and abroad.

President Joseph Estrada, in fact, had been more closely allied in 1986 to the Marcos regime than those that overthrew it. Over the years, the crowds at the anniversary ceremonies have dwindled to token levels on the Epinfanio de los Santos highway where some 2m people mustered in 1986 to defy the Marcos regime.

The fading interest comes amid growing unease over the return to power and respectability of many of those overthrown by the uprising. This has triggered much soul-searching about the anniversary by the local press in recent days, despite the gains since 1986 in the democratisation of the country and development of its economy.

"In the years that have passed, EDSA (the Philippine name for the uprising) has been lost in a swirl of what is still the worst in mankind. It has not changed anything," claimed the Business World newspaper. "Despite EDSA, the same cronies once again occupy the same thrones where they lorded it during the Marcos years."

Fidel Ramos, the former president and leader of the uprising, supports the view that many of those toppled from power by EDSA are back in power. "The interests they represented are still around. They are enjoying a new-found respectability, and daring even to revise our understanding of what happened in those dark days of dictatorship, to win back, in other words, what they lost to the people in a bloodless revolution," he says.

Leading the way has been the Marcos family itself. Despite allegations of plundering the country for billions of dollars, the family is now staging a remarkable comeback.

Ferdinand "Bong-Bong" Marcos Jnr, the son of the late dictator, is now governor of the Ilocos Norte province while Imée Marcos, the daughter, won election last year as a senator.

Imelda Marcos, the widow of the late dictator, is still fighting dozens of court charges and is soon to face pre-trial hearings for a senate investigation into her family's wealth.

Some 13 years after the uprising, corruption charges against the so-called "Iron Butterfly" of the Philippines are yet to stick. Meanwhile, she appears to have an amicable relationship with the Estrada administration, the same government with which she is negotiating a compromise deal concerning $US570m of alleged ill-gotten gains.

Mrs Marcos' increased confidence was highlighted recently when she declared she was preparing a legal battle to reclaim more than 500bn pesos ($US12.8bn) of assets allegedly entrusted by the late Mr Marcos to a series of cronies.

"We practically own everything in the Philippines," she said.

True or not, close associates of the late Mr Marcos still run many of the Philippines' leading companies and their influence appears to have grown under the Estrada administration.

Two of the closest Marcos associates, Eduardo Cojuangco and Lucio Tan, enjoy close connections with Mr Estrada. Mr Cojuangco, who regained control of the chairmanship of San Miguel, the brewing-to-food conglomerate last year, is also chairman of Mr Estrada's political party. His connections are only rivalled by those of Mr Tan, the Filipino-Chinese business tycoon.

Some observers, however, argue that the much-touted return of cronyism in the Philippines is a misnomer, saying the cronies never went away in a country where the politics of patronage remained entrenched.

Over time too, a blurring of the lines between pro- and anti-Marcos forces appears inevitable, partly reflecting a peculiarly Philippine capacity for reconciliation. This capacity is highlighted in the unlikely composition of the Estrada government which includes both Marcos allies and opponents.

Horatio Morales, the agrarian reform secretary and a former leftist guerrilla detained for four years under the Marcos regime, says it is part of the democratisation of politics. "In coalition politics, you have to accommodate each other," he says.

Alex Magno, at the University of the Philippines, says that despite the murkiness over the debate on the legacy of the EDSA uprising, its historical merits are clear. "The uprising is but another instance demonstrating a much broader heritage: a long history of struggle for creating a society of freedom."

Shipley wins NZ confidence vote

New Zealand's minority government yesterday won a parliamentary confidence vote held against a background of growing political embarrassment for Jenny Shipley, prime minister, Reuters reports from Wellington.

The government won the support of minor parties and independent MPs to win the vote by 61 to 58, passing the first test of its election year by the expected narrow majority.

The vote had been delayed until the evening after Ms Shipley was forced by opposition Labour members' tactics to deliver a prepared personal statement on the crowded steps of parliament instead of in the House.

In the statement she said she regretted the distraction caused by several days of debate and controversy over the relationship between herself, other ministers and Kevin Roberts, head of Saatchi & Saatchi Worldwide, the advertising agency.

Saatchi last year won a NZ$30m (US$16m) contract to promote the New Zealand Tourism Board internationally. Mr Roberts has since also been advising the ruling National party in a personal capacity on strategies for election victory.

Ms Shipley has made some apparently contradictory statements on what contact she has had with Mr Roberts since the NZTB contract was placed in July last year.

"I regret the distraction that this business has caused to the government and the parliament," she said yesterday. She also regretted one of her statements made to parliament which "had given rise to confusion".

As the election approaches, opposition parties have sought to link the debates in parliament over Ms Shipley's relationship with Mr Roberts and his role with a separate debate over the supervision of the NZTB by Murray McCully, tourism minister.

Mr McCully's handling of the tourism board, which has seen a string of top level resignations in the last few months, is the subject of an Audit Office review due to be completed in March.

However, after a release of about 100 documents overnight by Ms Shipley's office, opposition parties and the media said they had not found any evidence to connect National party re-election strategies and Mr Roberts with the upheavals at the tourism board.

Indonesian minister presses for farmers' micro-credits

By Sander Thoenes in Jakarta

Subsidised credits for farmers and small businesses may seem a luxurious fad for cash-strapped Indonesia, but Adi Sasono has convinced many that it is something his country cannot afford to go without.

Mr Sasono, minister for co-operatives and small enterprises, is pushing disbursement of Rp10,800bn ($1.2bn) in subsidised loans to farmers, small-time businesses and co-operatives, in spite of a severe credit crunch in banking sector and a $9bn budget deficit. In the previous year such loans amounted to only Rp200bn.

The one-year loans, at interest rates of 16 per cent rather than the going rate of more than 40 per cent, are provided through state and private banks in 17 different schemes, mostly targeting agriculture but also anything from bus co-operatives to street vendors and craftsmen. Mr Sasono said farmers pay back after every harvest while street vendors, who include many recently unemployed, are given loans only if they pay back instalments every day.

His ministry has also sent more than 5,000 experts from universities and non-government organisations into the regions to assist borrowers in applying for the loans and using them efficiently. "It's like a Peace Corps," he says.

But Mr Sasono is struggling to persuade economists that his credit scheme, part of what he calls a "People's Economy", can work.

Smaller credit schemes in the past ran aground in corruption. Mr Sasono says that up to 50 per cent of the funds go to co-operatives, mostly set up under Mr Suharto's patronage, which are infamous for siphoning off profits and leaving their members high and dry.

Mr Sasono himself is under fire for anti-Chinese remarks he made in the past and a lingering suspicion that his "People's Economy" is a veiled attack on the Chinese minority which dominates business.

"Of course the big companies, the cronies, are not happy with me," he told the Financial Times this week. "That's why they accuse me of being anti-market, of being anti-Chinese. I'm not anti-Chinese. Only very few [Chinese] deal with the crony system."

"I'm very much pro-market, but not the market they dictate. I want to stop the privileges given to them. Provided we can protect the very weak, we can empower the small enterprises, then we will have a competitive market."

Mr Sasono said he won over cabinet colleagues and the International Monetary Fund, which approved the budget, mainly by appealing to their fear that economic hardship will fuel widespread social unrest that could hamper any recovery.

"There is no stability without jobs," Mr Sasono says. "I don't think it is a subsidy but it an investment to create jobs, create purchasing power. By doing this we also increase demand for goods and services. There is a multiplying effect."

Most economists, no matter how critical of conglomerates, have yet to be convinced. Some say that credit lines for small businesses need to be available but not necessary at a subsidised rate, which could encourage lenders to simply deposit the cash at high interest.

"We can't just inject money and expect the economy to recover," said Sri Mulyani Indrawati, an economist. "We need a serious agenda for restructuring the economy. But the government is more preoccupied with politics than economics. They just want to be popular."

Financial aid to Cambodia 'hinders reform'

By Michiyo Nakamoto in Tokyo and Ted Bardacke in Bangkok

Rainsy: warning to donors

Financial aid from Japan and the World Bank to Cambodia was "counter-productive" and "a hindrance to reforms" and should be stopped, Sam Rainsy, leader of the Cambodian opposition, warned yesterday.

Mr Rainsy, a former finance minister, called on the World Bank and donor countries not to provide the government of Hun Sen with the $1.3bn it is seeking over the next three years.

The call by Mr Rainsy came as Mr Hun Sen arrived in Tokyo yesterday to meet representatives of 17 donor countries and seven multilateral institutions including the World Bank and the Asian Development Bank, tomorrow and Friday to seek further aid for his troubled country.

Mr Hun Sen is expected to promise to implement a host of economic and social reforms, including reigning in logging activities and demobilising up to half of the country's sprawling armed forces. Diplomats say the meeting is likely to agree to only one year's request of aid – about $450m – as an attempt to entice the Cambodian government into implementing the reforms.

In addition to the aid expected to be committed by the donor countries, the Japanese government is considering resuming yen-denominated loans to Cambodia for the first time in 31 years.

Japan is the largest aid donor on a bilateral basis, providing net aid of $71.3m up to 1996. In 1996 and 1997, Japan pledged up to Y18bn ($150m) in development aid and $3.5m to help remove land mines.

In spite of calls by human rights organisations to make its financial aid conditional on other legal and institutional reforms, Japan has consistently kept the issue of human rights and the prosecution of the Khmer Rouge, which is held responsible for the deaths of 1.7m people between 1975 and 1979, separate from its aid policy.

Mr Rainsy called on the donor countries not to provide budget support which the government can use at its discretion. "I think budget support is 100 per cent stolen by corrupt officials. I hope that they will not respond to a new request... to renew budget support," he said.

While the Hun Sen government is requesting financial aid to demobilise soldiers, half of them are ghost soldiers, he noted.

Defence spending cuts 'threaten Asian stability'

By Gwen Robinson in Sydney

Australian government leaders warned yesterday that the recent collapse of Asian defence spending amid economic turmoil had generated disparities in countries' military capabilities and threatened regional stability and security.

The warnings, given by Alexander Downer, the foreign minister, and John Moore, defence minister, to regional defence planners in Singapore were a departure from Australia's usual reluctance to comment on regional security issues. But they reflected Canberra's growing concern about rising regional tensions and the preoccupation of Asian powers such as Japan with their own economic problems.

Mr Moore said that before last year's upheavals in Asian economies, assumptions of continuous and expanding prosperity had been a stabilising influence. Regional economic crisis, however, had "profoundly affected social and political dynamics within the region".

"One of the least welcome aspects of the financial crisis, from a strategic and security viewpoint, has been the dramatic and sudden reduction in military budgets across south-east Asia," Mr Moore told Singapore's Temasek forum for regional defence issues.

As a result, rapidly widening differences in military funding capabilities between different countries were generating new regional tensions, he said.

"It is when neighbours begin to see a significant and growing disparity between the relative budgets, and therefore military capabilities, that there can emerge a loss of confidence... If this leads to withdrawal and breakdown in communications between militaries, it can end in suspicion and miscalculation."

Mr Moore said it was vital for Indonesia, Australia's closest neighbour and the country hardest hit socially and politically by the economic crisis, to play a "confident role" in regional security and manage its internal affairs well.

Mr Downer reinforced Australia's concerns at Singapore's Institute for Defence and Strategic Studies.

He said: "Some countries have been better able to insulate defence spending, while their neighbours have needed to make dramatic reductions...

"Careful management will be required to ensure that such disparities and any new relativities which emerge in the region do not cause distrust or misunderstanding."

The Australian ministers also urged the US to maintain regional military involvement and stressed the importance of the Five-Power Defence Arrangements, a loose defence co-operation agreement between Australia, Malaysia, New Zealand, the UK and Singapore.

Mr Downer said earlier there was "lingering uncertainty" over the future of FPDA joint military exercises, despite Malaysia's recent assurance of continued involvement.

The five countries are scheduled to hold joint exercises in April, but tensions between Malaysia and Singapore have cast doubts over the plan.

Shipley wins NZ confidence vote

Financial aid to Cambodia 'hinders reform'

هكذا-من الاعلان

HEADING TOWARDS THE EURO CONSERVATIVE LEADER MOURNS LOSS OF CENTURIES OF INDEPENDENCE AS SENIOR MEMBERS OF HIS PARTY BACK SINGLE CURRENCY

Entry may come less than 30 months after vote

By Kevin Brown and Sathnam Sanghera

Business supporters and opponents of the euro agreed yesterday on one thing: the Outline National Changeover Plan takes Britain one step closer to the currency.

The plan gives no hint of when the government will decide to start the process. But it sets out a "critical path" for the transition from sterling to the euro that envisages entry within 36 months of approval in a referendum.

That could come down to as little as 28 months if the Treasury is right in thinking that UK banks and retailers can handle the transition more quickly than their counterparts in the 11 first wave countries, which took 44 months.

Crucially, the UK government has backed away from indicating when the sterling exchange rate might be locked against the euro – the real point of no return in the transition process.

Treasury documents used in drawing up the changeover plan suggested that locking would take place after eight months – the timetable used by the 11 – but that controversial proposal has been dropped from the final version.

Nevertheless, the timetable suggests that Britain could enter the single currency as early as May 2002 if, as expected, the next national election is called for May 2001. On that basis, euro notes and coins could be circulating as early as September 2003.

This is in line with the expectations of many companies.

An independent survey released by the European Federation of Accountants showed that 33 per cent of UK companies expect the UK to enter by 2002; 91 per cent think entry will happen by 2005.

The document makes clear, and officials amplified, that the existence of the single currency makes an accelerated timetable likely. British companies can act more quickly than their continental and Irish counterparts because they can draw on the experience of the first wave.

But it also says there is much work left to do, especially by the City and the public sector. The government will seek parliamentary approval to spend "tens of millions of pounds" on preparing computer systems before a referendum to avoid a long time lag afterwards.

The changeover plan gives no indication of the cost of the transition. Nick Herbert, chief executive of the Business for Sterling lobby group, said the cost could be as much as £5bn ($8.15bn) and warned that companies were unlikely to spend shareholders' money without more information.

But Adair Turner, director-general of the Confederation of British Industry, the employers' lobby, said estimates of cost were largely spurious because much of the necessary spending would have to take place anyway when computer systems were upgraded.

Sir Stanley Kalms, chairman of the Dixons retail chain, said the transition would cost the company an estimated £40m in systems changes, staff training and consultancy fees. "This is quite horrendous in the sense that we have to start the actual spending now," he said.

Tim Melville-Ross, director general of the Institute of Directors, said businesses should not be expected to spend any money on preparation until the government had met its own economic criteria for joining and the public had voted in favour of the euro in a referendum.

However, most senior business people who were willing to comment praised the report. Many urged the government to go further. "This is a clear signal of the government's commitment to enter the single currency when economic conditions allow," said Ian Peters, deputy director-general of the British Chambers of Commerce.

Martin Sorrell, chief executive of the WPP Group, said: "The quicker we join the euro the better. We should join it as soon as humanly possible."

'It is conditional; it is not inevitable'

Extracts from the prime minister's statement to the House of Commons

In his statement of October 1997, the chancellor [of the exchequer] made clear the government's view that membership of a successful euro would bring benefits to Britain in terms of jobs, investment and trade. He said that in principle the government was in favour of Britain joining a successful single currency. And he set out the conditions necessary to satisfy our national economic interest.

So our intention is clear. Britain should join a successful single currency, provided the economic conditions are met. It is conditional. It is not inevitable. Both intention and conditions are genuine.

This is the right course for the country, to resolve this issue for the British national interest ... I do not dismiss the constitutional or political issues. They are real. Monetary union is a big step of integration. But so was the Single European Act. And the EU itself.

In finance and business the world is more and more integrated. It is moving closer together. And if joining a single currency is good for British jobs and British industry, if it enhances British power and British influence, I believe it is right for Britain to overcome these constitutional and political arguments and the fears behind them.

For the very reason of the sensitivity of these arguments, we have also said clearly: the Government can recommend. But the people will decide in a referendum. What we announce today, therefore, is not a change of policy. It is a change of gear.

If we wish to have the option of joining, we must prepare... There are those, on the opposition benches and elsewhere, who oppose the very idea of a national changeover plan. I say: 'We can no longer afford to pretend either that the euro does not exist or that Britain should not actively prepare for it.'

... The euro is a reality. It exists. Eleven out of 15 other EU members are in it. It represents 20 per cent of world income, as big as the US. It will be the currency of 290m people. It has begun and, on the whole, it has begun well... And those who predicted it would never happen or would launch itself in disaster, have been proven wrong.

Fifty per cent of our trade now is with the euro-zone. The launch of the euro means already that an increasing number of UK firms are starting to use the euro, not just big business like British Steel or Ford or Philips or ICI and Unilever.

■ We have established 12 regional euro forums across the UK, led by senior business people, who are taking preparations forward.

■ Firms can now pay taxes, file accounts, issue and redenominate shares and receive certain grants in euro, and Customs and Excise has trained 10,000 staff to respond to business needs.

Small businesses will have the help they need; the City of London is prepared and already taking a good share of euro-denominated business.

But these are all preparations for the euro, with Britain, at present, out of it. It is also necessary now to prepare for Britain being in. If, as we have already announced, we want to keep the option open of making a decision early in the next Parliament to join, we need to step up our practical preparations now. Hence the National Changeover Plan.

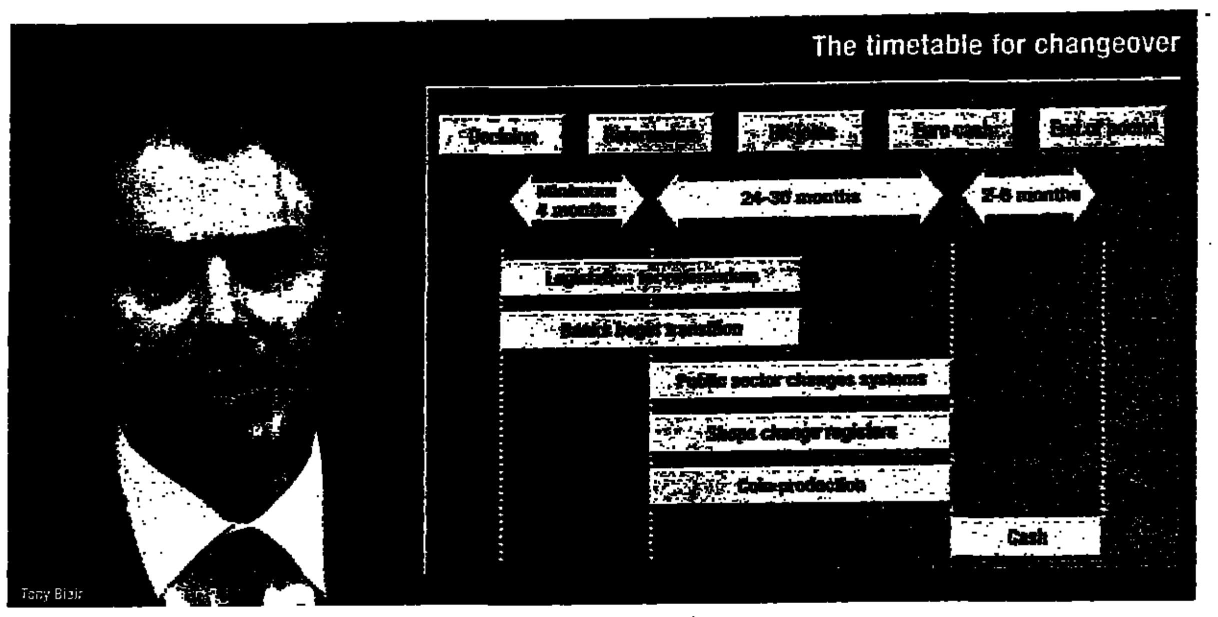
The public sector will give a clear sign of its commitment to prepare. Each department now has a minister responsible for euro preparations and each will now report regularly on the preparations they are making...

So the Government itself will be making active preparations for the euro in the belief it will be in this country's interests to join in the future should our economic tests be met. Business should start to do the same.

The National Changeover Plan sets out the range of work involved for different sectors... Businesses, large and small, need to focus on the impact of the euro on their business strategies.

On the basis of this work, and after studying the experience of the first wave of participants, the outline plan that we are publishing today shows that it is possible to streamline the timetable adopted in Europe, with no disadvantage to our economy and some benefit.

Overall we believe it should be possible to move in four months from a government decision to a referendum; in 24-30 months from a positive referendum result to the introduction of notes and coins; and a further six months before sterling notes and coins are withdrawn. This means that the whole process from a positive referendum result to the withdrawal of sterling could be completed in around three years, considerably faster than the period required for the first wave of Emu participants.



A great deal of further work needs to be done to refine and develop this timetable, and particularly to clarify how soon after a positive referendum result we could actually join monetary union. As the plan makes clear we are committed to taking this work forward in collaboration with business and the wider public sector, so that we can produce a further plan in about a year's time.

I now turn to the economic tests the chancellor set out on 27 October 1997. There is much focus, entirely natural, on the politics of the euro project. It is, of course, an intensely political act. But just as the euro cannot be conceived of, except politically; it cannot be made to work, except economically. It is, after all, an economic union.

We have, as a overnment, resolved the political issues, in favour of the principle of joining, should the economic tests be met. But they must be met. The manner in which we joined the ERM is a standing monument to the danger of joining a monetary arrangement on purely political grounds.

There are two ideological and absolute positions on the euro which I do not share. The first is 'no, never'. It is to rule out Britain's membership of the euro on grounds of constitutional principle for always. It is a perfectly principled position. It argues, no matter what the benefits in terms of jobs or industry or even influence, such a decision is simply wrong, on grounds of sovereignty. I cannot accept this. For the reasons I gave earlier. In the modern world, look around, technology, global finance, mass communication, to say nothing of travel and culture: this is a world moving together. Sovereignty pooled can be sovereignty, or at least power and influence, renewed ...

The second position is an unconditional 'yes, now'. It is to say that economic conditions are meaningless and we should join regardless. But I believe the conditions are meaningful. It is precisely because the conditions are meaningful that we have said, to give some greater certainty to business and the country, that, barring unforeseen circumstances, we would not make a decision this Parliament to recommend joining the euro.

It is worth summarising the economic tests the chancellor set out: sustainable convergence between the UK and countries within the euro-zone; flexibility to adapt to change in the UK and in continental Europe; the impact on investment and the UK financial services industry; and whether joining the single currency would be good for employment ...

In October 1997, UK interest rates were at 7 per cent, with those in France and Germany at close to 3 per cent. UK interest rates are now at 5.5 per cent, compared to 3 per cent for the euro area. The difference between our long-term interest rates and theirs is also falling, and is now down to around half a per cent. Long-term interest rates are now around their lowest for 40 years.

Our inflation performance is consistent with the European Central Bank's definition of price stability. But it is essential that convergence is settled and sustainable. We cannot say that yet.

There is now under this government is an entirely new framework for economic management in place ... This new framework is a revolution in economic management for Britain. On its foundation, we have then put in place measures to boost education, skills, technology and productivity, measures to enhance the ability of business to grow and prosper. But we need to get through this more difficult part of the economic cycle and emerge stronger. For Britain to join the euro, it must be from a position of sustained economic strength.

Europe has a choice. Most of the countries in Europe have high and persistent levels of unemployment. The Asian crisis has brought home to all of us in the EU, the fragility of the new world of globalisation. Our world economy is more interdependent than ever before. The EU is not competing with itself; but with the whole of the world from Asia to America... I want us in a Europe that at best is moving firmly in the same direction, rather than trying to hold us back. A vision that lets us adapt the European social model to the new realities of global commerce. A vision that binds the EU and America closer together and lets us learn from one another.

Banks relieved at longer changeover timespan

By George Graham, Andrew Bolger and Chris Tighe

British banks and financial services companies are relieved that the changeover plan allows for a longer gap between a decision to adopt the euro and final UK entry than some earlier drafts.

The plan acknowledges that converting the often elderly core computer systems of the big retail banks would be a difficult task. The Treasury notes that financial services are more concentrated in the UK than in, for example, Germany and France, so the principal banks handle large volumes of transactions and a wide range of services. "All of this means that overall lead times for the retail banks could be quite long – in some cases they estimate up to three years."

The high value euro payment system – CHAPS – would have to be expanded to cope with an increase from an estimated 15,000-25,000 to perhaps 170,000 payments a day. Retail payments systems would also require enhancement.

The main date for shops would be the moment when euro notes and coins are introduced in the UK. For banks, the euro would arrive much earlier: at the moment the UK joins and the exchange rate was fixed. "As a second wave country, with the euro already being used, we would expect considerable demand for euro services from the lock-in date, so we would have to have computers adapted at that stage," said Roger Brown of the British Bankers' Association.

The lock-in date, however, is left unclear.

The plan says that the time from a positive referendum result to UK entry would depend on the state of preparedness of key sectors of the economy, including the retail banks.

Precise levels of demand for early euro services are still hard to predict and more work is to be done by the Treasury and the banks over the next six months in an effort to estimate it. But most UK bankers expect that take-up by businesses would be much faster than it has proved to be in first wave countries.

Financial services companies still insist, therefore, that they need positive signals from the government some time before an actual decision to join, so they can prepare their systems.

David Baker of Northern Rock, a mortgage bank which favoured a shorter changeover, said: "This gives *us confidence* we are more likely to go into the euro than we were yesterday. We will be able to plan with a little bit more conviction."

The Association of British Insurers said: "We don't think there will be any significant investment until people are given a clearer indication about what precisely is going to happen and when."

A recent ABI survey of 100 insurers found most were aware of the issues concerning the euro but were reluctant to incur implementation costs until they had a better idea of the government's intentions.

Premier's resolve shakes off 'little England' mentality

By Robert Peston, Political Editor

Everything is the same and everything is different. In a formal sense, the government remains equivocal about when to join the euro – the basis of its policy on European monetary union is intact. But the decision of Tony Blair, the prime minister, to put himself at the head of a pro-euro campaign leaves no room for doubt about his intent to abolish sterling early in the next century.

That is why Gordon Brown did not feel aggrieved that the prime minister took the limelight in the House of Commons yesterday on a subject normally reserved for a chancellor of the exchequer. If Mr Brown had delivered the speech, the widespread perception would have been that nothing had changed in the government's approach to the euro. Indeed, the prime minister's statement was remarkably similar to that made by Mr Brown in October 1997, when the policy was established.

Both statements are founded on a commitment in principle to join the euro-zone, subject to several economic conditions, and with the *caveat* that they will not be right until after the election, in 2001 or 2002.

But until yesterday, Mr Brown has made most of the running in promoting monetary union. Mr Blair has periodically lauded it, but spent much of the time stressing the obstacles, especially when addressing influential Eurosceptic newspapers, led by Rupert Murdoch's mass-market daily The Sun.

But he should find it impossible now to deny his enthusiasm, having told the Commons "in principle Britain should join a successful single currency". That is why, according to a government member, the chancellor suggested some weeks ago that Mr Blair make the statement – although the prime minister was still dithering last week about whether to do it.

To prevent Mr Blair having second thoughts, pro-European MPs mounted a concerted exercise to lock him in. All the leading euro-enthusiasts – including Edward Heath, the fiercely pro-European former Conservative prime minister who took the UK into European community – – welcomed his Damascene conversion with an alacrity intended to deny him an opportunity to recant. Probably the most significant moment was when Michael Heseltine, former Conservative deputy prime minister, extracted a promise from Mr Blair that he would put himself "at the forefront" of a cross-party euro movement.

This is not to say that it is now certain a decision will be taken to abolish sterling in just a short years. That issue will largely be settled by Wim Duisenberg, European central bank president, Eddie George, Bank of England governor, and Mr Brown. They will collectively have the greatest influence over whether there is sufficient convergence between the UK and euro-zone.

But the political consequences of yesterday's events extend well beyond the timing of entry. This may have been the moment when the break-up of the Conservative party into a pro- and anti-euro wing became inevitable. It was more than just a little anomalous for the party's biggest beasts – such as Sir Edward Heath – to line up alongside the prime minister, while William Hague, the party leader, talked of the end of "1,000 years" of British independence.

Mr Brown was happy to stand in Mr Blair's shadow, putting government before self-interest. Mr Blair was prepared to challenge the "little England" orthodoxy promoted by Mr Murdoch's newspapers, risking their fawning support. It was the moment the prime minister and his colleagues sloughed off their opposition mentality and became a proper government.

THE ECONOMY CENTRAL BANK DEPUTY CHIEF SAYS EARNINGS GROWTH IS PROBABLY FALLING AS DATA REVEAL COLLAPSE OF EXPORT VOLUMES

Expert estimates interest rates are close to neutral

By Richard Adams and Melanie Carroll

DeAnne Julius, one of the Bank of England's independent monetary policy experts, yesterday said UK interest rates were "close" to neutral.

Ms Julius told the Treasury committee of the House of Commons that she estimated the neutral level of nominal interest rates – where monetary policy neither boosts nor restrains economic growth – to be 4-6 per cent.

"Now that interest rates have come down significantly in the last five months, I think it is fair to say that we are close to the neutral rate," Ms Julius said.

Her views are slightly more relaxed than other members of the central bank's monetary policy committee, which sets official short-term interest rates.

The minutes of the committee's December meeting say it estimated the neutral nominal rate of interest to be 4.5-6.5 per cent.

If Ms Julius has a lower central estimate of where the neutral rate might be – compared with her colleagues – she may be more likely to support further cuts to bring interest rates down to neutral.

Mervyn King, the Bank's deputy governor, told the select committee that earnings growth was probably falling, thanks to slower growth in wage settlements, although official earnings statistics have been suspended.

Mr King said the joint report by the Bank and the Treasury into the Office for National Statistics' handling of the average earnings index last year was still being worked on, and would be published before the Budget on March 9.

Mr King also said the UK was unlikely to adopt the harmonised index of consumer prices, the euro-zone measure of inflation, although it has started to publish that in conjunction with the retail prices index, the standard measure.

Mr King said the Bank had examined the HICP, but noted that European Union statisticians were now working on improving the index. "It would be premature to switch to an index that may well change," he said.

Eddie George, Bank of England governor, addresses MPs PA

"The consequence of changing the index means you need to change the target," said Eddie George, the Bank's governor. "The idea that you could end up sneaking in an extra one per cent of inflation because of the target index is absolutely dotty."

Ian Plenderleith, the Bank's executive director in charge of market operations, earlier told the committee that his vote to leave interest rates unchanged in January was "a matter of timing".

That month the committee voted 8-1 to cut rates by a quarter of a percentage point.

Figures reveal record for non-EU trade deficit

By Christopher Adams, Economics Staff

Britain has a record trade deficit with countries outside the European Union after sagging global demand and the Asian economic crisis caused a collapse in UK export volumes.

The non-EU deficit in goods increased in January from £1.71bn ($2.78bn) to £2.21bn, the Office for National Statistics said yesterday.

Economists said the deterioration showed that weak external demand would continue to act as a significant drag on the domestic economy. UK manufacturers have struggled to keep their share of overseas markets while competitively priced imports have increased pressure at home. "Global economic dislocation is taking an increasing toll on the UK's trade performance," said Richard Iley, at ABN Amro. "The collapse in export volumes is at odds with the pick-up in export optimism recorded in surveys. Given sterling's continued strength, this rebound in optimism may be short-lived."

While the overall deficit in goods narrowed slightly in December from the previous month, edging down from £2.3bn to £2.24bn, the underlying trend pointed towards a further widening.

Brian Wilson, trade minister, described the difficulties in non-EU markets as exceptional. Declining volumes to south-east Asia were the main influence behind an increase in the total 1998 deficit from £11.9bn to £20.6bn, the biggest annual trade gap since 1989.

The continued deterioration in net trade was a significant drag on growth in the final few months of last year. The increase in the deficit during the final quarter knocked 1.1 per cent off gross domestic product.

Revised output data published yesterday showed fourth-quarter growth unchanged from the estimate of 0.2 per cent. But earlier figures were revised downwards, pushing GDP in the latter half of 1998 even further below its long-term trend rate of growth.

Inventories increased sharply and manufacturing output fell. Services recorded steady growth.

COMPUTERS RESPONSE TO RISK OF ELECTRONIC ATTACK

Hackers 'threaten public IT systems'

By Paul Taylor in London

The risk of malicious electronic attacks on Britain's critical information infrastructure is growing and must be met with a co-ordinated response from the government and the private sector, Margaret Beckett, Leader of the House of Commons, said yesterday.

The leader of the house is a senior government member responsible for arranging parliamentary business.

"I don't want to exaggerate the danger of a malicious attack on the infrastructure, but it is real," she said at a conference on Critical National Infrastructure organised by the Communications Electronics Security Group, which is responsible for keeping official IT and communications safe.

"As a result of the way the nation's computers now interlink, we have created a massive new national asset, a virtual asset: a critical information infrastructure," she said.

Her comments represent one of the first public acknowledgements by a senior member of the government that the growth of the internet and malicious "hacking" represent a serious threat to a raft of crucial services and utilities that are now heavily dependent upon IT systems.

These include the power industry, telecommunications networks, water and sewage systems as well as government and other IT systems, many of which are now interdependent.

"The invisible information networks which control these enterprises are as vital a part of our crucial infrastructure as the visible hardware of power stations and water treatment plants," said Mrs Beckett.

Similar concerns in the US led to the establishment of a Presidential Commission on the national infrastructure. It made a string of recommendations designed to limit the potential damage from malicious attacks.

Mrs Beckett said that while the dangers from an electronic attack on key information systems were probably quite low at the moment, they would increase over time.

"These risks are steadily increasing because all of us – government, business, local councils and private citizens – increasingly depend on our computer systems, and are linking our computers together more and more. The more ways there are of getting into a system."

Mrs Beckett said that the government would harness the skills and resources of a whole range of government agencies and the private sector in response to the threat.

"Network attacks respect no boundaries, organisational or national," she said, "and our response must be equally flexible." Mrs Beckett said the government was starting to gather intelligence on possible threats and ensuring security organisations evolved to meet the new problem.

Merger: Royal Navy harriers will combine with those of the RAF

Harrier forces to be merged

Harrier aircraft from the Royal Air Force and Royal Navy are to merge into a single strike force, the government announced yesterday.

"This is a practical and symbolic step towards the creation of a truly joint force, capable of reaching the world's trouble spots and acting effectively," said George Robertson, chief defence minister.

The new unit will bring together RAF GR7 Harriers mainly designed for ground-attack bombing and Royal Navy Sea Harrier FA2s that specialise in air-to-air combat.

The new force will have a total of 84 aircraft capable of operating from an aircraft carrier or a land base outside the UK.

Men and women from the two services will continue to wear their traditional uniforms but will undergo joint training to ensure they provide an effective land attack and air defence force.

The merger follows the government's Strategic Defence Review, which laid out plans for more co-operation between the armed forces.

Bechtel is given $24m rail target

By Charles Batchelor, Transport Correspondent

Bechtel, the US engineering group, could earn up to £15m ($24m) – including a "success fee" of £12m for 12 months work – if it completes an extension to the London Underground railway in time for the capital's millennium celebrations.

The festivities are to be centred on the Millennium Dome in south-east London, which is to be linked to the Underground network via the delayed £2.95bn extension to the Jubilee Line.

Bechtel is also expected to earn a "mobilisation fee" of £2m-3m for providing a team of 40 senior managers to work alongside London Transport, the state-owned operator of the Underground, and its contractors.

Ministers called in the US group last September to give new momentum to the troubled project. London Transport has announced a target completion date of October 31 but there are fears that the 15km scheme will not be completed in time for the turn of the century.

Bechtel said it would receive a success fee of £4m-£12m "linked to the staged completion" of the extension through the Canary Wharf office complex in the Docklands district east of the City.

Bechtel will also receive "significantly less" than £4m as a basic fee though it declined to confirm the exact figure. "We will be reimbursed for mobilising the team and for the cost of the executives and other Bechtel personnel assigned to the project," it said.

Bechtel said its fee was relatively small. "We stepped in late in the day and agreed to put our reputation on the line," it added.

Peter Ford, former chairman of London Transport, said the fee appeared reasonable in view of the work involved. It represented "a political insurance premium", transferring responsibility to Bechtel.

The company has a carefully cultivated reputation for finishing projects on time and to budget. In 1990 it was called in to ensure completion of the Channel tunnel between France and England, which was embroiled in wrangles between its promoter, Eurotunnel, and the construction consortium.

NEWS DIGEST

CAPITAL ONE

US credit card group to boost English operation

Capital One, the US credit card company, yesterday announced £20m ($32.6m) extra investment at its European operations centre in Nottingham, in the English Midlands. The company, based in Falls Church, Virginia, claims to be the world's biggest supplier of Visa and Mastercard. Nigel Morris, president and chief operating officer, said demand was higher than expected because the company offered the lowest interest charges of any UK credit cards. "Clearly Capital One's speed of growth in the UK has exceeded our expectations," he said. "We are confident our additional investment in Nottingham and its people will soon pay dividends as we accelerate our progress in the UK." Innovations such as cards carrying personal photos and discounts for London leisure venues have also been popular. Capital One had nearly 17m customers worldwide and $17.4bn in managed loans at December 31. **Juliette Jowit, Midlands Correspondent**

BBC WORLDWIDE

Branding aims at $24m sales

The BBC is to announce today that it expects to make sales of programmes to international broadcasters of about £15m ($24.4m) in the the next five years by organising them into themed blocks of comedy, factual and drama. The BBC, which this week hosts its annual sales conference for international broadcasters, is placing increasing weight on its "branded blocks" approach, allowing it to provide longer runs of programmes.

BBC Worldwide, the corporation's commercial arm, has devised the approach after encountering difficulty selling individual comedy and drama shows to the US, Europe and Asia. Mike Phillips, head of international television for BBC Worldwide, said the new approach was devised to take account of the growing influence of commercial television companies in international sales. "A number of broadcasters are now taking the American scheduling approach of longer runs of programmes, and that means we cannot simply sell them a single run of six British programmes," he said. **John Gapper, London**

SHIPBUILDING

Lifeline for Kvaerner yard

The government yesterday held out a lifeline to the Kvaerner Govan shipyard in central Scotland by including it on the shortlist of companies selected to bid for a £200m ($326m) order for six roll-on roll-off ferries for the Ministry of Defence. The yard is threatened with closure because it will run out of work in mid-May and the Anglo-Norwegian group is reviewing its future, along with all its other operations. Kvaerner, which yesterday announced pre-tax losses of £100m, has said the Govan yard has failed to make a substantial profit in the decade that it has owned it. The issue has become more urgent to the governing Labour party with the approach of the first Scottish parliamentary elections on May 6, in which the Govan district is a crucial battleground between Labour and the Scottish National party. **James Buxton, Edinburgh**

NATIONAL LOTTERY

Franchises 'should be longer'

The next National Lottery franchise should be longer than the present seven years to ensure the game's long-term health, Sir George Russell, chairman of the Camelot consortium that operates the lottery, said last night. The members of Camelot are De La Rue, Racal, the ICL offshoot of Fujitsu and the Cadbury Schweppes food and drink group. The length of the franchise has been one of the lottery's greatest weaknesses, said Sir George. In business, seven years was a short cycle that placed immediate pressures on development. Sir George, speaking at Newcastle University, said he was not calling for an extension to the current franchise, which camelot has from 1994 to 2001.

"But I do think the lottery commission should give careful consideration to the length of the next franchise," he said. **Chris Tighe, Newcastle upon Tyne**

CONSERVATION

'Silent' road to be laid for owls

A "silent surface" is to be laid on 17km of the M65 motorway near Burnley in north-west England so that traffic noise will not disrupt owls hunting near the road. The Highways Agency agreed to the special surface, costing more than £2m ($3.2m), after hearing representations from local residents, farmers and the Council for the Protection of Rural England. The groups said owls hunt by listening to the movement of their prey and traffic noise was driving them away.

New thinking for a changing world

Asset Management - Dublin

EuroPlus Research & Management is one of the largest asset managers in Europe. We are a core business and independent subsidiary of Unicredito Italiano. We analyse 2,800 quoted European companies and manage 70 billion euros.

Our ambitious growth strategy will be achieved through our reputation for best practice, our management processes and our people with their diverse cultural backgrounds and experience.

Here is an opportunity to work with an ambitious asset management organisation that has an independent, bottom-up, research-driven approach to asset management; recognises the value of a multicultural, team environment; and is ready to respond to the needs of the euro investor.

Located in Dublin we also offer the opportunity to live and work in a major city that is recognised as being part of the European investment community; offers the career opportunities of London, yet offers a quality lifestyle and has one of the most vibrant and dynamic cultures in Europe.

In addition to exceptional career development opportunities, we also offer market-related base salaries, a generous benefits package, relocation assistance and performance-driven bonuses.

Equity Research

European Sector Analysis — L/1999

Our equity analyst and portfolio manager roles hold equal value; not only do our analysts work in partnership with portfolio managers to develop action lists for portfolios and challenge their ideas, they also apply their research by constructing and managing Research Portfolios.

In order to facilitate the continued expansion of our bottom-up, research driven equity team, we are building further expertise in the telecoms, pharmaceutical, energy, insurance and auto sectors.

In addition to the activities outlined above, our equity analysts are responsible for:

- establishing, developing and maintaining relationships within their chosen sector.
- undertaking in-depth sector research and financial and strategic analysis to develop company valuation models to reflect current and future financial performance.

You will have an MBA or Masters in either Finance or Economics, coupled with 3-10 years' experience. This may have been gained in an asset management organisation, investment bank, planning/finance department of a large corporate or within a stock exchange research department.

You will be excited by theoretical concepts, curious about short, medium and long-term developments in an industry; have the skills required to liaise with and challenge the ideas of CEOs and CFOs coupled with the analytical skills to extract the story behind financial data.

Quantitative Research

Our quantitative research team is composed of technically brilliant, deeply committed and energetic professionals, and is expanding rapidly.

Risk Analyst — L/2001

You will be responsible for developing models to m monitor portfolio risk and for reporting on the exposure and risk of different elements of our portfolios.

You will develop:

- models to assess tracking error volatility
- VAR models for risk analysis
- multi-factor analysis risk models for bonds, equities or derivatives
- models for scenario analysis

You will have a BSc in Maths, Statistics or Economics or an MSc in Finance. You will be excited by programming and manipulating complex data and have 1-2 years' experience as a quantitative analyst in a risk management team within the asset management industry or 2 years' experience on a trading desk or treasury department within a bank.

Asset Allocation Analyst — L/2002

You will support fund managers by applying macroeconomic theory to the fundamentals of financial markets and so evaluate expected future portfolio return.

In order to advise on optimal asset allocation, you will:

- use qualitative and quantitative data forecasts to develop economic models, such as BVAR, for total return forecasting on equity, currency and bond markets.
- develop models to undertake portfolio optimisation and asset allocation scenario analysis.

You will have a macroeconomic background at MSc/Phd level coupled with 2 years' experience of asset allocation within the quantitative research department of a global asset management organisation or investment bank.

Performance Attribution Analyst — L/2003

In keeping with world-wide best practices, we have a strategic need for a performance attribution analyst. Working initially within the qualitative research team, your key responsibilities will include:

- monitoring and assessing the performance of all our portfolios under management
- investigating each NAV and benchmark to identify the source of outperformance
- developing multi-factor performance attribution models to identify the factors that drive performance
- performing risk-adjusted performance analyses to account for performance given different risk factors
- implementing the GIPS standard

Ideally you will have a BSc in Statistics, Applied Maths or an MSc in Economics and some programming experience. Given the nature of this role and its impact on the profile of EuroPlus, excellent analytical skills, a concern for order and attention to detail are essential.

Institutional Portfolios

Portfolio Manager — L/2004

Joining our international portfolio management team you will work with the quantitative research team to turn capital protected models into portfolios in line with client needs.

You will construct and manage retail and institutional capital protected products according to bond, equity and derivative requirements.

In time, you will be able to challenge the structure of the portfolio models according to your own assessments such that the structure reflects expected risk/return profiles.

You will have a BSc/MSc, good financial market experience coupled with 2-3 years' experience working with or structuring capital protected products or in derivatives/fixed income markets.

Joining a truly international team, for all teams roles cross-cultural sensitivity, teamwork and communication skills are essential.

EuroPlus
Research & Management

We invite you to contact our advising consultants David Hunter on 00 44 171 939 3991 or Tara Nolan on 00 353 1 662 6703 for a discreet conversation about your role in the EuroPlus adventure. Alternatively you may send your details to them quoting the appropriate reference number at Executive Search & Selection, PricewaterhouseCoopers, Southwark Towers, 32 London Bridge Street, London SE1 9SY. Fax: 00 44 171 378 0647 E-mail: [illegible]

The quality of performance justified the expedient: Stephen Allen as Solano in Scottish Opera's production of 'The Magic Fountain'

MUSIC IN SCOTLAND TWO UK PREMIERES – DELIUS AND TORKE

Fountain in need of a magic spell

Andrew Clark finds out why Delius's opera took 100 years to reach the stage and that the 'Book of Proverbs' is foot-tapping stuff

It is surely no coincidence that the hero of Delius's *The Magic Fountain* should be called Solano, for it was at Solana Grove in Florida that the young English composer discovered his calling. Nor can it be coincidence that the opera carries echoes of Wagner, for Delius wrote it shortly after visiting Bayreuth in 1894. Equally, it is no matter of chance that *The Magic Fountain* has had to wait more than 100 years for its UK stage premiere.

Judging by Scottish Opera's performance at the Theatre Royal in Glasgow on Saturday, the characters are too one-dimensional, and the drama too even-handed, for the opera to work properly on stage. But anyone who knows Delius's *Florida Suite* will recognise the musical inspiration, about which Sir Thomas Beecham waxed so eloquently in his Delius biography. Beecham never got round to conducting it, and it was left to the BBC to give it its first performance in 1977, later released on LP with ghastly sound effects. *The Magic Fountain* finally reached the stage only two years ago in Kiel, Germany.

By playing it without a break, Scottish Opera proved that *The Magic Fountain* is a tone poem in the wrong guise. It has a consistency of mood and line unusual in Delius's *oeuvre*, and its lush instrumental colours give it a powerful atmospheric charge. Saturday's performance lasted just over an hour and a half, during which Richard Armstrong and his orchestra never relaxed their idiomatic grasp.

But what are we to make of the story? A 16th-century Spanish sea captain, dreaming of the fountain of eternal youth, is shipwrecked in Florida and rescued by a native Indian girl, who guides him to the sacred spring. They fall in love and die partaking of its waters. Is this a *Tristan*-esque love-death, a *Parsifal*-like quest for spiritual enlightenment – or an autobiographical portrait of a composer who loses his innocence in the arms of a female mulatto?

In the opening scene of Aidan Lang's production, this last option looked the most likely: here was the obsessive sea captain disguised as an impressionable young Englishman, bound for the New World on an ocean liner, with the crew acting as an inner voice of reason. Having planted the idea of Delius-as-Solano, Lang and his designers, Ashley Martin-Davis and Paul Pyant, left the rest to our imagination: simple diagonal lines described wigwam and rain-forest, warm colours *à la* Gauguin suggested a sultry idyll, each scene fluently partitioned and suffused with tropical light.

The costumes and warpaint may have been fanciful, and Andrew George's tribal choreography was worthy of a farce, but the only serious misjudgment was the unmystical portrayal of Talum Hadjo, the Erda-like seer. Otherwise I found myself wishing that the production's visual beauties could have been lavished on a more worthy opera. Stephen Allen brought an aura of dreamy innocence to Solano, while Anne Mason turned Watawa into a broody warrior-maiden. Stafford Dean was the dignified Indian leader, Jonathan Veira a stentorian seer. The chorus was excellent.

Was *The Magic Fountain* worth the effort? On balance, yes. Thanks to generous sponsorship from the Delius Trust, Scottish Opera has filled an important gap in Delius performance history. *The Magic Fountain* may be no more than a curiosity, but the quality of performance justified the experiment.

★

At Edinburgh's Festival Theatre on Sunday I heard a UK premiere of a very different hue: Michael Torke's *Book of Proverbs*, a 40-minute choral work in eight movements, which he wrote for Netherlands Radio three years ago. Scotland is going to be hearing a lot of Torke, as he has just been appointed associate composer of the Royal Scottish National Orchestra. *Book of Proverbs* sums up everything we already know about him: it uses the same old funky rhythms and feel-good harmonies, but at greater length than before.

There's an orchestral introduction, a couple of solos for soprano and baritone, and a series of choral movements in which Torke ascribes note-cells to word-syllables, before shifting them around to see what melodic/rhythmic combinations they bring. It makes nonsense of the biblical texts, but, as with most Minimalist music, the repetitions generate a cathartic momentum.

It's all good foot-tapping stuff, as "understandable" (the composer's word) as it is forgettable: Torke is succumbing to his own repetitions. The RSNO, together with its chorus and soloists Jeni Bern and Christopher Maltman, certainly had the measure of it, as did the conductor, Marin Alsop.

Delights pirouette with monstrosities

Clement Crisp greets the Pacific Northwest Ballet's first visit to London with mixed feelings

Tristram Kenton

No malice aforethought: scene from 'In the Courtyard'

I am ready to forgive a ballet company almost anything if it does honourably by Balanchine's *Four Temperaments*. So I am prepared to believe that Pacific Northwest Ballet, making its London debut at Sadler's Wells on Monday night, did not offer us *In the Courtyard* with malice aforethought. In mitigation, I must also note that this monstrosity by Donald Byrd was receiving its very first performance – though anyone with a shred of decent feeling should have put it out of its misery in the rehearsal studio.

Pacific Northwest made a first and impressive British appearance at last year's Edinburgh Festival with a loving, lively staging of Balanchine's *A Midsummer Night's Dream* (and this will be on view in the latter part of the week). There may be reasons for deciding to begin a season with a programme of repertory pieces, but they are not as good as opening with a trump card, and this start to the visit was not entirely happy. Good, serious dancers, of course, but uniformly hideous design – glum decor; clothes from Seattle's branch of GUM, and best seen on Soviet Commissars and their four-square wives in the 1950s – and choreographies that did not always deliver the artistic goods.

Kevin O'Day's *Aract* which started the evening was decently neo-classic, a development from Balanchine's manner, and well-made. Set to Graham Fitkin piano music (some in orchestration) it was also vastly over-extended. It looked like two ballets, felt like at least three, and its thematic signals about attraction and repulsion between couples were neither clear nor particularly interesting. O'Day, though, knows how to make dances – in this case too many – and the devices and desires in his choreography are worth watching.

To find Byrd's *In the Courtyard* treading on its heels like a mugger, with no interval, is rotten programming. Set to an exquisitely awful score by Louis Andriessen – it sounded as if someone were disembowelling a jazz band – it proposed two couples rushing in and out of temper-tantrums, and I could discern no purpose or merit in it at any moment. The company would be well-advised to leave it outside the Wells' back-door for the dustmen, with a large tip as danger-money.

Kent Stowell and Francia Russell, PNB's artistic directors, have done much to maintain the Balanchine repertory in their own repertory and in stagings round the world. Stowell's *Quaternary* is a "school of Balanchine" creation – musically responsive, well-crafted in academic style – which uses Rakhmaninov's second suite for piano duet. Four couples; decorous dances; clean, good manners; fluent dancing; no problems: I thought it most agreeably done.

And so, at last, to *Four Temperaments*. It was made in 1946, and it still looks more modern than most of the clutter staged by today's aspirants to classic style. Originally it was cursed with horrendous design by Kurt Seligmann – the choreography looked as if it had been in collision with a *salade Niçoise* – but stripped of this nonsense, its identity as a masterpiece was clear. In its miraculous dances we can see the germs of much of what Balanchine was to do in extending the possibilities of academic movement. I think it the very life-blood of ballet, and in its last moments, as women soar up and away in the arms of their partners, it is as if the dance itself is taking off for the future that Balanchine had destined for it.

It is a marvel, and Pacific's cast looked devoted, alert, bright in energy and in understanding of choreography that is full of flavour, of the pulse of balletic feeling and of dance possibilities. Patricia Barker, very gifted, wears the Sanguinic dances as if made for her by Balanciaga, and is wonderful. The other members of the cast are no less apt and admirable. What a work of genius – and one whose Hindemith score was very well played under Stewart Kershaw.

Pacific Northwest Ballet's visit is sponsored by the James and Sherry Raisbeck Foundation and the Peterson family.

MUSIC

Diva with attitude

Julia Migenes is known to a wider opera-film audience as a volatile Carmen for Placido Domingo's Don José, and to actual opera-goers as an intrepid soprano of many and varied parts: Tosca, Salome, Manon, even Berg's Lulu. She used to be "Migenes-Johnson", but Mr Johnson was jettisoned somewhere along the way. Now she is touring as a one-woman show, called *Diva on the Verge*. It reached the Peacock Theatre, London WC2 on Monday, to be repeated on the next three Mondays.

Her *Diva* is specifically and rightly billed for non-opera-goers who might be on the brink of giving opera a try, not for seasoned aficionados (whom Migenes calls "purists"). For the latter there is far too little singing, and an excess of talk about what being a diva involves – the colossal physical demands and the concomitant anxieties, the battles with conductors and stage-directors. I took a non-aficionado friend along, however, who found Migenes' candid chat thoroughly enlightening.

In the course of the evening, just two hours long, she touches upon her rough childhood (New York's East Side, louche Greek-Irish-Puerto-Rican parentage), brushes modestly over her precocious successes, and underlines the fact that the German and Austrian houses where her career flourished have now blacklisted her – which may explain the current tour. Evidently they found her diva-ish demands too much.

It would take a brave man to argue with her. She projects herself vigorously, both in her peaky little Manhattan speaking-voice and in her lush operatic tones (when she deigns to show them off – strictly rationed, since for most of the show she talks non-stop). She is an unmistakable Personality, and she loves it.

Mostly, we did too. She is bracingly honest (though one longed to hear her producers' and conductors' sides of the stories), and even took the trouble to explain why a diva has to wield a personality on that formidable scale. But she clings to the bad old tradition of American opera-stars who give recitals, which is to employ an accompanist of no pretensions whatever, a perfect non-competitor.

The Migenes partner is apparently a much sought-after vocal coach, but as a public performer she is deadly. Stiff, inexpressive, unable to conjure up any feeling of the original orchestral music – and she takes an inordinate time over the voiceless interludes, to no effective purpose.

If Migenes thinks that a non-combatant pianist is the thing to have, she is dead wrong; a more creative accompanist would enhance the show no end, even if they argued a lot.

David Murray

INTERNATIONAL

Arts Guide

AMSTERDAM

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 6911
Carmen: by Bizet. New staging by Andreas Homoki, conducted by Edo de Waart. The designs are by Wolfgang Gussmann and Gabriele Jaenecke, and the cast includes Carmen Oprisanu and Martin Thompson; Feb 24

BERLIN

OPERA
Deutsche Oper
Tel: 49-30-34384-01
Rise and Fall of the City of Mahagonny: by Kurt Weill, libretto by Brecht. New staging by Günter Krämer, conducted by Lawrence Foster, with designs by Gottfried Pilz and Isabel Ines Glathar; Feb 24, 28

BOLOGNA

OPERA
Teatro Comunale
Tel: 39-051-529 999
www.nettuno.it/bo/teatrocomunale
La Bohème: by Puccini. Conducted by Daniele Gatti/Paolo Arrivabeni in a staging by Lorenzo Mariani, with designs by Willy Orlandi; Feb 24, 25.

CARDIFF

OPERA
Welsh National Opera
Tel: 44-1222-464 666
● Hansel and Gretel: by Humperdinck. Conducted by Wladimir Jurowski in a staging by Richard Jones, premiered in December. Cast includes Imelda Drumm, Linda Kitchen and Nigel Robson; Feb 26
● Peter Grimes: by Benjamin Britten. Carlo Rizzi conducts a new staging by Peter Stein. With sets by Stefan Mayer and costumes by Moidele Bickel. Cast includes John Daszak and Janice Watson; Feb 24

COLOGNE

EXHIBITION
Wallraf-Richartz Museum
Tel: 49-221-223 82
www.museenkoeln.de
Arendt de Gelder (1645-1727): first monographic exhibition devoted to Arendt de Gelder, one of Rembrandt's most prominent pupils. The show includes 58 paintings and 13 drawings as well as 25 graphic works by Rembrandt; to May 9

EDINBURGH

OPERA
Edinburgh Festival Theatre
Tel: 44-131-529 6000
● Scottish Opera: Der Rosenkavalier, by R. Strauss. New staging by David McVicar, conducted by Richard Armstrong. The cast includes Joan Rodgers; Feb 24, 27
● The Magic Fountain: by Delius. Conducted by Richard Armstrong in a new staging by Aidan Lang, with designs by Ashley Martin-Davis; Feb 26

HARTFORD

EXHIBITION
Wadsworth Atheneum
Pieter de Hooch (1629-1681): previously seen at Dulwich Picture Gallery, this first-ever one-man show of the Dutch painter offers a reassessment of his work. Less celebrated than his contemporary, Vermeer, de Hooch was a pioneer in his own right, and a specialist in maternal and domestic subjects; to Feb 27

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
London Symphony Orchestra: conducted by Lorin Maazel in the UK premiere of his Music for Violin and Orchestra, and in Bartók's First Portrait; and by Wolfgang Gieron in Tchaikovsky's Symphony No. 6; Feb 24, 25,

Royal Festival Hall
Tel: 44-171-960 4242
London Philharmonic Orchestra: conducted by Jukka-Pakka Saraste in works by Strauss and Beethoven, with soprano Cheryl Studer; Feb 24

DANCE
Sadler's Wells
Tel: 44-171-863 8000
Pacific Northwest Ballet: London debut for the company, which brings a mixed programme of American works (Feb 22-24), and Francia Russell's staging of Balanchine's A Midsummer Night's Dream (Feb 25-27); to Feb 27

MUNICH

CONCERT
Philharmonie Gasteig
Tel: 49-89-5481 8181
Rundfunkorchester des Bayerischen Rundfunks: conducted by Marcello Viotti in works by Puccini; Feb 28

NEW YORK

CONCERT
Avery Fisher Hall, Lincoln Center
Tel: 1-212-875 5030
www.lincolncenter.org
New York Philharmonic: conducted by Kurt Masur in works by Beethoven and Liszt. With piano soloist Hélène Grimaud, viola soloist Rebecca Young and the American Boychoir; Feb 25, 26, 27

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
Moses and Aron: by Schoenberg. Conducted by James Levine in a staging by Graham Vick, with sets and costumes by Paul Brown. Cast includes Philip Langridge and John Tomlinson; Feb 26

PARIS

CONCERTS
Salle Pleyel
Tel: 33-1-4561 6589
Orchestre de Paris: conducted by Christoph Eschenbach in works by Brahms, with piano soloist Tzimon Barto; Feb 24, 25

POTSDAM

EXHIBITION
Cinema Museum
Leni Riefenstahl: first major German exhibition of the film maker and friend to Hitler since the war. Includes films produced during the Nazi period and more recent photographic work; to Feb 28

PRAGUE

DANCE
National Theatre of Prague
Tel: 420-2-2108 0131
www.anet.cz/nd
The Nutcracker: by Tchaikovsky, in a staging by Russian choreographer Jurij Grigorovic, with sets and costumes by Simon Virsaladze; Feb 24

ROME

EXHIBITIONS
Palazzo delle Esposizioni
Tel: 39-06-474 5903
Poussin: Early Years in Rome. Display of 41 works produced between 1624 and 1628. The centrepiece is 'The sacking of the temple in Jerusalem by Titus' (1925/6), commissioned by the Barberini family and rediscovered by Denis Mahon. Includes major public and private loans from Europe and the US; to Mar 1

SAN FRANCISCO

CONCERTS
Davies Symphony Hall
Tel: 1-415-864 6000
www.sfsymphony.org
San Francisco Symphony Orchestra: conducted by Jeffrey Tate in works by R. Strauss, Humperdinck and Honegger. With flute soloist Paul Renzi and horn Julie Ann Giacobassi; Feb 25, 26, 27

SEATTLE

OPERA
Seattle Opera
Tel: 1-206-389 7676
www.seattleopera.org
Vanessa: by Samuel Barber. Conducted by Yves Abel in a staging by Sharon Ott. The title role is sung by Sheri Greenawald/Ashley Putnam; Feb 27, 28

TOKYO

CONCERTS
Suntory Hall
Tel: 81-3-3584 9999
● Tokyo Metropolitan Symphony Orchestra: conducted by Ryusuke Numajiri in works by Dutilleux, Bruch and Mozart, with violin soloist Katrin Scholz; Feb 24
● Yomiuri Nippon Symphony Orchestra: conducted by Rafael Frühbeck de Burgos in works by Falla and R. Strauss; Feb 26

VIENNA

EXHIBITION
Austrian Museum of Applied Arts
James Turrell: retrospective of the American artist who incorporates the elements into his architectural designs. Including two site-specific installations, the show also features photographs and drawings of the extinct volcano in which Turrell has been working since the 1970s; to Mar 21

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:
06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

MARTIN WOLF

The right call

With Asia in recession, the US in overdrive and Europe in denial, the world needs a new trade round more than ever

"Tonight I issue a call to the nations of the world to join the United States in a new round of global trade negotiations." With these words from his state of the union address on January 19 1999, Bill Clinton, the US president, made the "millennium" round – as Sir Leon Brittan, the European Union's chief trade negotiator, has named it – almost a certainty. He was right to make the call, both to promote further desirable economic integration and to limit the danger of a protectionist backlash.

So far, as Charlene Barshefsky, US trade representative, noted in a speech on January 29 1999, "despite a shock nearly as great as the one that brought the Smoot-Hawley tariff [of 1930], with 40 per cent of the world in recession and six major economies suffering a contraction of 6 per cent or more, we as yet see no broad reversion to protectionism." Yet complacency would be foolish. William Daley, US commerce secretary, has warned that "last year's financial crisis could become this year's trade crisis".

The danger lies not so much in the crisis-afflicted countries, which have avoided new barriers to trade, as in the advanced countries, particularly the US. The source of this risk was on display at last weekend's Bonn meeting of the finance ministers and central bank governors of the Group of Seven leading economies.

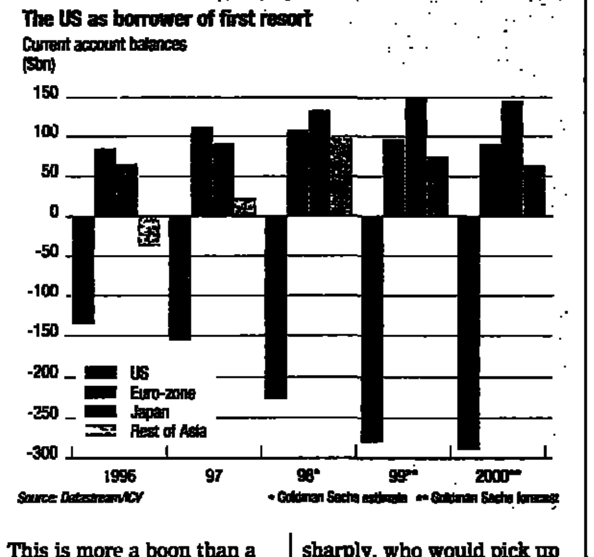
Robert Rubin, US treasury secretary, argued that Europe had to play a bigger role in absorbing imports from the economies of Asia. But the communiqué merely said that "we remain committed to a domestically based growth strategy that would contribute to achieving more balanced growth among our countries, reducing external imbalances and supporting recovery in emerging market economies". These are empty words. In practice, Japan may be unable and the European Central Bank unwilling to achieve this.

What are US policymakers referring to when they describe their country as the "importer of only resort"? The answer emerges from the chart:

- The US may be running a current account deficit of $281bn (£173bn) this year, almost as large as the $334bn combined surplus of the euro-zone, Japan and emerging Asia.
- The US deficit would then have risen by $146bn between 1996 and this year, while the sum of the Japanese and emerging Asian surpluses would have grown by $198bn.
- The euro-zone will run a big and remarkably stable surplus throughout.

There can be no sound economic objection to current account surpluses and deficits, *per se*. On the contrary, it is demented to push for capital account liberalisation as vigorously as the US has done and complain about the current account surpluses and deficits that naturally result. Moreover, a current account deficit allows a country to spend more than it earns.

The US as borrower of first resort



Source: Datastream/ICV * Goldman Sachs estimate ** Goldman Sachs forecast

This is more a boon than a burden, provided the country can meet its external obligations.

True, in the case of the US, current account deficits may be unsustainable in the long run. But they are bringing big benefits in the short run. In 1998, US domestic demand rose about 5.2 per cent, while gross domestic product grew 3.9 per cent. If it were not for the supply of cheap imports, this torrid growth in demand would have generated domestic overheating. The shift in the current account saved the US from the consequences of its excessively expansionary monetary policies.

Yet the US is also right to argue that it gave much help to the rest of the world. In 1998, the world economy as a whole grew only 2 per cent, down from 4.1 per cent in 1997. The surge in US private spending allowed the world economy to accommodate both the shift in capital flows away from emerging Asia and the Japanese recession, with far less damage than might have been the case.

Moreover, the US received little assistance from the euro-zone. In 1998 internal demand there grew 3.2 per cent, but GDP rose 2.9 per cent, creating almost no net impulse to economic activity in the rest of the world. Demand in the euro-zone must grow much faster than its trend rate of around 2½ per cent to generate a significant deterioration in its external surplus.

The legitimate worry then is that the US role will prove unsustainable. If its private sector were to cut spending sharply, who would pick up the slack? Recovering Asia should be a part of the answer. But the US is right to call on Japan and the euro-zone to promote stronger domestic demand and so reduce the risk of an unnecessary global recession. There is no obvious reason why, in response, the euro-zone should refuse to generate growth in demand at above trend rates, for some years.

Yet some in the euro-zone seem content, instead, to let a weakening euro sustain output as demand slows. The US is bound to see this as profoundly hostile: when Asia *must* export its slowdown, the euro-zone is choosing to add to the pressure. Criticisms by European officials of low US savings merely add insult to injury, since it is Americans' willingness to spend, not save, that has kept the world economy afloat.

So US officials are right to complain about the risks of global recession and the macro-economic policy failures of Japan and the euro-zone. They may be wrong to worry about trade deficits themselves, but correct to fear the political backlash at home these are likely to cause, particularly if the economy slowed. It is essential therefore to develop a strategy for handling trade policy while the world economy comes back into balance.

The economic impact of trade policy is on efficiency and growth, not deficits. If the US resorted to protection, it would merely shift the pressure on to unprotected activities, including exports, probably via appreciation of the dollar. Protection is therefore a self-defeating response to the need to adjust to changes in net capital flows. Policymakers understand this. The big danger, however, is that political pressures will lead to backsliding on trade commitments that would increase uncertainty, dampen Asian recovery and undermine the health of the global economy.

Starting a new trade round is a wise response to such pressures. A powerful reason for starting the Uruguay Round in the 1980s was to limit the protectionist pressures created by ballooning US current account deficits. With the deficit becoming of a similar size in relation to US GDP, a round could buy time for macro-economic adjustments to work their way through the world economy.

Fortunately, the world is already committed to negotiations on agriculture and service. It can build on this in the November WTO ministerial meeting in Seattle to launch a round. The aims are good enough in themselves. They should include: further liberalisation of agriculture and services; elimination of tariffs; further opening of markets for government procurement; promotion of competition and curbs on anti-dumping measures; and improvement of conditions for foreign direct investment.

The trade agenda is long and complex. But starting upon it vigorously would be twice blessed. This would mark a commitment to global economic integration, notwithstanding the financial turmoil. It would also meet head on the inevitable growth of protectionist pressure in the US. Mr Clinton was right to make the call. The round should now follow.

Martin.Wolf@ft.com

Buyback bonanza

Special dividends and one-off handouts are sweeping Europe. But the trend could leave companies in difficulty in the event of a downturn, warns Tony Jackson

The cult of the buy-back is catching on fast in Europe. In the past week, a spate of UK banks have announced buyback programmes. That was capped by yesterday's £5bn ($8bn) special dividend from Unilever: a sum equal to over 10 per cent of its market value, and the biggest one-off hand-out by a company anywhere.

The phenomenon is starting to trouble some observers, not least in the US. Obviously, buybacks and special dividends – the latter being chosen by Unilever for tax reasons – mean more debt. *That is fine when times are good.* What happens when they turn nasty?

The chief economist of Moody's, the US credit rating agency, was quoted to just that effect in yesterday's Wall Street Journal. In a downturn, he warned, some companies might find themselves faced with significantly higher interest rates on their increased debt. Indeed, some might have to cancel capital investments.

The banks, perhaps, are a special case. It is in their nature to make more bad loans at the top of the cycle. And the more spare cash they have, the more they will lend: so handing some back to shareholders might seem merely prudent.

But Unilever is a manufacturer. It turns out tangible goods such as margarine, ice cream and washing powder. Why can it not put that money to better use? Why not build more factories?

"Because we've got too many," was the prompt reply yesterday of Niall FitzGerald, Unilever's chairman. The company is building new plants in the developing world: but in its heartland, Europe, it is still shutting them down. It has no pressing need for new capacity: last year its world sales – by volume and value – went up just 2 per cent.

Granted, Unilever is slightly unusual. Even by the opulent standard of modern capitalism, it has cash coming out of its ears. In 1997 it sold its speciality chemicals business for £5bn, the sum it is now giving away. At the end of last year it had net cash on its balance sheet of £4bn, up £1bn from the year before.

In such a case, warnings on debt levels scarcely apply. But two general questions remain. Many companies, as a result of operating efficiencies, are pumping out cash. Why cannot they deploy it productively themselves? And if they cannot, why should their shareholders be better placed to do so?

Let us grant that a company such as Unilever does not need more for factories these days, given static world markets and modern production techniques. Instead, it has a gradually rising bill for intangible investments – advertising, marketing, research and development – on which it now spends four times as much as it does on physical assets.

But profits and cashflow are rising faster. Unilever's net margins last year were the highest in the company's long history. Other companies, such as General Electric of the US, are in the same position.

One obvious alternative is to spend the money on acquisitions. But in today's markets, Mr Fitzgerald said yesterday, prices – for big companies, anyway – are just too high. Last year, Unilever's net bill for acquisitions was a paltry £230m.

This brings us back to the shareholders. If markets are so high, what can they do with the cash? "Whether they have better uses remains to be seen," Mr Fitzgerald said. "But it's their choice. We don't need the money."

In theory, there should be a virtuous recycling process. As resources are released by mature industries, they are available to cash-hungry growth companies.

In reality, there are not enough Silicon Valley start-ups to absorb this kind of money. And the recipients of all those handouts and buybacks are not, by and large, venture capitalists. They are big institutions, with a growing bias to investing in the world's largest companies by market value.

These are just the companies which have too much money already. And as Mr Fitzgerald suggests, they are also highly valued – not least, presumably, because the market looks to them for further buybacks.

There is a further paradox. The market bids up a growth stock like Microsoft – which pays no dividends – on an implicit premise: that when the growth runs out, the company will hand the money back. Mature companies are now doing just that. Why should the market bid their shares up all over again?

One final question. Suppose Unilever is still in the same position a few years from now: selling off its less attractive businesses, jibbing at acquisitions and generating more cash than it can use. Will it distribute more of itself again?

Applied to the market as a whole, the prospect is a curious one. This would be a world in which the corporate sector needed less and less financial capital to generate a given level of earnings.

Companies and their owners would then be trapped within a closed system. The financial surplus would be handed to the institutions: but they, lacking an alternative outlet, could use it only to bid those earnings up to ever higher multiples.

To the extent that more of those earnings were being distributed, that might seem fair enough. But it would all depend on rather a lot of things going right.

First, of course, the generation of surpluses would have to be sustainable. That in turn would depend on two premises. First, operating efficiency would have to keep improving, so that more and more could be squeezed from a static or shrinking base.

Second, the cost of servicing a higher level of debt would have to stay low. That is, the debt markets would have to remain confident of the first premise. Otherwise, the rising cost of debt would hit profits, and create a vicious circle.

It might all work, but it is asking a lot. If it goes wrong, the principle of shareholder value will have demonstrated one tiny flaw.

Of course it is desirable that managers should abandon the old habit of increasing revenues and balance sheets at the expense of value. The trouble is that the reverse is possible: value can be created while sales and balance sheets shrink.

For a while, anyway. But in the end, as King Lear remarked, nothing will come of nothing.

Hong Kong's threatened rule of law

A legal row with China threatens the future of the territory's independent judiciary and the 'one country, two systems' formula, says Rahul Jacob

In the countdown to Hong Kong's return to Chinese rule in July 1997, there were essentially three competing visions of the territory's post-colonial future.

The most alarmist view was that at the first sign of a sizeable anti-government demonstration, tanks would roll down the busy streets and Hong Kong would never be the same again. The second was that China's increasingly pragmatic and market-oriented government would leave the territory to run itself. Under the Basic Law, Hong Kong's post-colonial constitution, China has promised the territory's executive, legislature and judiciary "a high degree of autonomy". To China's credit, it has kept its side of the bargain so far.

But there was a third possibility: that over time, despite China's best intentions, Deng Xiaoping's ingenious "one country, two systems" formula would fail because China did not really understand how all the different gears – the rule of law, a predictable regulatory environment, private property – worked together in a capitalist economy. It may be time to dust off scenario three – crisis by mistake.

Late last month Hong Kong's Court of Final Appeal claimed that the courts of Hong Kong had the right to determine "whether an act of the National People's Congress or its Standing Committee is inconsistent with the Basic Law". If it was, the court insisted, it could declare their application in Hong Kong invalid. China saw red. The ruling was denounced as an attack on China's sovereignty by mainland legal experts, the Chinese press and a senior official. In mid-February, China's government told Hong Kong's secretary for justice that parts of the ruling needed to be "rectified".

Businessmen in Hong Kong have always taken an independent judiciary for granted – until now. Yesterday, a report by Standard & Poor's Ratings Services warned that the dispute was likely to be "the first of several more controversies that will determine the details of the relationship between the mainland government and Hong Kong under the Basic Law". The local American Chamber of Commerce came out strongly in defence of the Hong Kong court, saying it considered "the rule of law and an independent judiciary to be paramount to Hong Kong's status as a centre for international commerce and finance".

"You would hope that 18 months after the handover, the predictability of the framework was going to be greater, not less, but you have a situation now where the legal system is up for grabs," says Edwin Feulner, president of the Heritage Foundation, a thinktank in Washington DC that constructs a "freedom index" for countries each year.

Any move to limit the jurisdiction of Hong Kong's courts would do incalculable damage to the judicial autonomy promised to its courts

At the heart of the constitutional dispute are several mainland children who appealed to the court saying they had a right of abode in Hong Kong under the Basic Law because they had at least one parent who was a Hong Kong resident. The court ruled in their favour, and it was in narrowing the scope for referring such cases to the National People's Congress that it claimed primary jurisdiction in the territory.

Beijing has recently repeated its demand for change to those parts of the ruling that affirm the Court of Final Appeal's autonomy. The president of China's Supreme People's Court, Xiao Yang, called on *all* of China's courts "to actively accept the supervision of the NPC". It was clear that he had one particularly wayward court in mind.

Hong Kong politicians and the local bar association defended the court by saying that it has merely put the rule of law above the power of the NPC. This runs counter to the Chinese system. On notions such as judicial review, Hong Kong's legal profession is steeped in a common law tradition, while China's legal experts believe the NPC has unquestionable authority.

When it comes to real or perceived threats to its sovereignty, China is an unyielding opponent, as this row seems destined to prove. Legal experts believe that the standing committee of the National People's Congress will reinterpret the Basic Law in a way that limits the jurisdiction of Hong Kong's highest court. Some observers say this need not undermine Hong Kong's judiciary if it is limited to passages of the court ruling where it says it can review acts of the NPC. "The difference of opinion is on a technical and legalistic point that would not affect the operating of the legal system," says Albert Chen, dean of the law school at the University of Hong Kong and a member of the Basic Law drafting committee.

Others are less sanguine. Margaret Ng, who represents the legal profession in the local legislature, says any move to limit the jurisdiction of Hong Kong's courts would do "incalculable damage" to the spirit and the principle of judicial autonomy, including the right of final adjudication, promised to Hong Kong's courts. Any attempt to alter the ruling would first be seen as a political act even if it were couched in legal terms. "If you want to reverse it, you would also be saying a court in Hong Kong has no power to examine the acts of the NPC," she says.

However the dispute is resolved, it has highlighted the difficulties in administering Hong Kong by the "one country, two systems" formula. The Basic Law which embodies it has many ambiguities; the very article that gives Hong Kong courts the authority to interpret the Basic Law also gives the NPC's Standing Committee the power to do so.

More generally, the formula's unprecedented balancing act between sovereignty and autonomy depends on China's sense of magnanimity and self-interest. Both have been evident in the first 18 *months after the handover*. The Hong Kong government – and China – have allowed what seem like weekly demonstrations, including the mammoth annual affair on June 4 to mark the Tiananmen massacre.

The recent dispute suggests that there are limits to this liberal attitude. If China sees the Hong Kong court's affirmation of its autonomy as an affront to its sovereignty even when it comes wrapped in reams of polite legalese, it is unlikely that it will tolerate either a chief executive who is not hand-picked or a legislature whose powers to introduce bills are not so narrowly restricted. That will clearly circumscribe the development of genuine democracy.

A decision by the NPC's standing committee that showed scant respect for the rule of law in Hong Kong would also be a setback for China's own aspirations towards legal reform. It has begun to take halting steps towards a more independent judiciary and is considering amending its constitution to include the rule of law as a guiding principle. Hong Kong could be a model for China judicially – as it has been economically.

If China decides to limit the autonomy of Hong Kong's Court of Final Appeal in the next couple of weeks, damaged business confidence in the territory would not be the only casualty of Beijing's heavy-handedness.

LETTERS TO THE EDITOR

US has become adept at using its trade account as a balance wheel

From Mr Arun Hargobind.

Sir, I bear no personal malice *towards Wynne Godley, a* fellow alumnus of King's College, Cambridge, but I am mystified as to why you would allow him yet again to use your Personal View column ("The US economy: an impossible balancing act", February 19) to expound an argument that is just the same old roly-poly pudding that we get fed day in and day out by so many Wall Street economists. He even quotes one of them approvingly at the start of his recent article.

Theirs, and his, is a tale of tragic inevitability, of a US private sector that saves the world with its profligacy but eventually succumbs to its financial imbalance, ending up in a recession. And how grim it all will be! Dr Godley writes: "With the average growth rate barely positive over the next five years as a whole ... the budget surplus will disappear and unem*ployment would rise to 7 per* cent or more."

Such a state of affairs is not likely to come about. The US economy has become adept at using its trade account as a balance wheel to prevent it from sliding into too deep a recession, just as it uses trade to contain inflation pressures during years of very rapid growth.

High growth in gross domestic product is achieved with low inflation by allowing the dollar to strengthen and the deficit in tradeables to expand, as many domestic goods are replaced by cheap imports; we saw it in 1983-85 and we have seen this phenomenon at work almost continuously, and to stunning effect, since 1994. Similarly, recessions are kept shallow by stimulating the tradeables sector with a weaker dollar, as we experienced from April 1991 to *August 1992, and I predict* that we will see it in a much more dramatic way the next time round.

The scandal, then, is why the rest of the world allows itself to be used in this way to smooth out the fluctuations of the US economy. The developing world is routinely required to switch its resources from tradeables to non-tradeables and back to tradeables to "mirror" the needs of the US. (The first leads to asset market bubbles, the second to currency crises.) And, yes, this is the real reason why the European politicians' call for exchange rate target zones and macroeconomic co-ordination must be taken seriously.

Arun Hargobind,
11 Dryden Terrace,
Short Hills, NJ 07078, US

Claim does not confer rights

From Mr W.G. Stormont.

Sir, If, as your article claims, China's priority is to *ensure the economic pros*perity of its people, it will have to look beyond the South China Sea in order to do so ("Decades before Beijing can challenge Washington in Asia", February 19).

Vietnam, Malaysia, the Philippines and Brunei also claim parts of the South China Sea and reject China's contention that its ill-defined and extravagant claim somehow confers on it rights to resources in the southern part of these waters.

This fact would appear to undermine China's position that territorial claims may be shelved while claimant countries exploit whatever hydrocarbon resources are present.

William Gordon Stormont,
2843 Marine Drive,
West Vancouver,
BC, Canada

Where Oval Office aspirants cannot escape the common man

From Mr Chris Swift.

Sir, I refer to Victoria Griffith's article "New Hampshire keen to remain the state would-be presidents woo first" (February 10).

A casual visitor to New Hampshire may have difficulty understanding the qualities justifying its first-in-the-nation primary. Yet, in an age when focus groups create public policy and interest groups dominate the political process, New Hampshire remains one of the few places where candidates cannot escape the common man. Our town meetings are an institution older than the US itself. Aspirants to the Oval Office must frequently endure both the political and the gastronomical challenges of the local church supper. Voters of all ages expect to meet and judge prospective presidents in person. Surely this is democracy at its purest.

To suggest that New Hampshire is a bastion for extremist conservatism is as erroneous as referring to Dartmouth College, a proud and noble institution, as "Dartmouth University". One wonders how refined any political analysis can hope to be when such fundamental local attributes are overlooked.

Chris Swift,
50 Pierce Lane,
Hollis,
New Hampshire 03049, US

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers worldwide. Letters may be faxed to +44 171-873 5938 (set fax to 'fine'), e-mail: letters.editor@ft.com Published letters are also available on the FT web site, http://www.FT.com Translation may be available for letters written in the main international languages. Fax 0171 873 5938. Letters should be typed and not hand written.

FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700

Wednesday February 24 1999

Signalling change

Opinion within the Federal Open Market Committee is finely balanced. So too, was Alan Greenspan, chairman of the Federal Reserve Board, in his Humphrey-Hawkins testimony yesterday. "Monetary policy must be ready to move quickly in either direction" was the bottom line. This is true. But the case for an interest rate increase is stronger than the case for a cut. The FOMC may not be ready to signal this change in stance yet: it will soon have to.

The Fed's central forecast is for growth of 2.5-3 per cent. This represents a slowdown from the last two years, when the economy grew at 3.9 per cent. However, these projections are shrouded in even greater uncertainty than usual. Just a few weeks ago, the FOMC expected growth below 2.5 per cent. Moreover, there are significant risks both on the downside and upside.

There are risks to growth from the international economy, and from slowing domestic demand. Business investment and consumer spending are unlikely to sustain last year's levels. Investment will fall as the economy slows and profits weaken, and – as the current account deficit grows – foreigners become less willing to lend. Household spending above household income cannot continue indefinitely. And as Mr Greenspan noted again yesterday, high stock market prices pose significant risk.

The weakness of the international economy, shrugged off last year, will slow the economy in 1999. This is not unwelcome. The US economy certainly needs to cool down from its unsustainable pace at the end of last year.

Further international shocks could be destabilising. However, the international economy and US capital markets – the reason for the Fed's three interest rate cuts last autumn – have substantially improved. Mr Greenspan asks whether the full extent of the easing undertaken then is appropriate as these disturbances abate. With growth remaining robust, the answer is no.

It is true that an increase in inflation from 1.6 per cent last year to a forecast 2-2.5 per cent in 1999 is not a giant leap. But growth is forecast above trend, and the labour market has got to a point where wage inflation is becoming the greatest risk. Despite the Fed's intriguing discussion of temporary and permanent factors behind the low rate of inflation, there are only 10m or so potential workers left to employ in the US. Mr Greenspan is right: "Worker depletion constitutes a critical upside risk."

It is time to signal the turn. This may upset share prices. But the Fed says it does not target asset prices. Thus, it should focus on this macro-economic case.

EU hypocrisy

Nearly five years ago, Nelson Mandela was elected president of a democratic and multi-racial South Africa. The world rushed to congratulate him, and promise all sorts of assistance to make the new deal work. Out in front were the member states of the European Union, who pledged to throw open their doors to trade, as the best way they could underpin the fledgling regime.

It sounded generous, and it sounded sensible. It was obviously a political gesture, but it also recognised the urgent need to reopen South Africa's export markets after the apartheid era, to provide economic growth and jobs for the majority black population.

The reality has tragically proved to be neither generous nor sensible. South Africa has been pinned down in an interminable series of negotiations – with more than 20 rounds of talks at the last count – in which the EU has demanded reciprocity and more for any moves to open its own trade doors. Narrow vested interests have been allowed to hold the process to ransom. Yet again this week – nearly four years after negotiations began – EU foreign ministers failed to finalise a deal as they haggled over details in the text.

The EU has been on the wrong track almost since the start. It took a year to agree on a negotiating mandate, and then it was for a bilateral free trade agreement, and not the membership of the broader Lomé pact which South Africa was seeking. Such a free trade agreement gave each of the 15 EU nations the right to demand detailed exclusions, which have complicated the negotiations ever since.

The deal on the table is one which looks very good for the protectionist interests of the EU. It provides a remarkable degree of continued protection for agriculture, and a lot of potential for EU exports to South Africa. It provides reassurances to European producers of cut flowers, fruit juice and potatoes, not to mention Spanish sherry and Portuguese port.

And yet those should not have been the main priority for the negotiators. It is a nonsense that a political gesture of support for a fragile new democracy has become a typical session of commercial haggling by the wealthy Europeans.

Five countries raised niggling questions about the final agreement, tabled by the European Commission this week: France, Italy, Greece, Spain and Portugal. It is high time that their heads of government overruled their trade negotiators. For the EU, which so likes to lecture others on payment of their debts, is failing to honour its own obligations to South Africa.

Euro landmark

An important landmark has been passed in Britain's long and turbulent voyage towards economic integration with Europe.

In his address to the Commons yesterday, Tony Blair left no doubt of his intentions. The prime minister wants the country to join the European single currency as soon as feasible, and he will work hard to achieve this end.

Moreover, he is backing the plan with cash. The modification of public sector computer systems is to be started well in advance of a referendum on the issue, expected after the next election, perhaps in 2001.

This spending will have two desirable effects. First, it will help to ensure that Britain is ready to adopt the euro with the minimum delay after the referendum. This will give the country a credible choice: full integration with the euro could take place about three years after a decision to join.

Second, and perhaps more important, government spending on the project will be a strong signal to businesses that they, too, must start making the necessary investments, principally on training, new accounting systems and information technology.

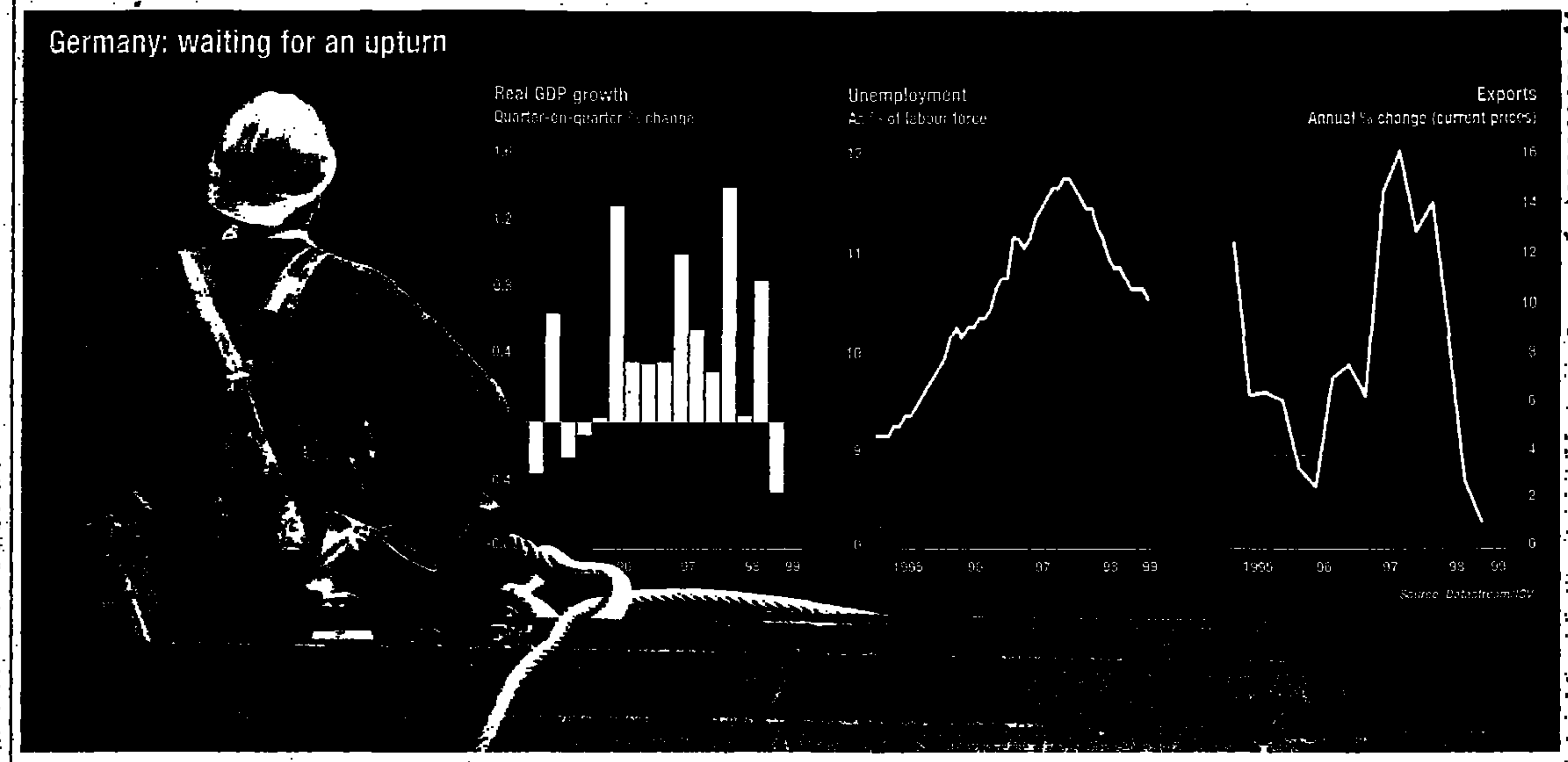
Much of this preparation will be needed whether or not Britain joins. For as Mr Blair said, the euro is here to stay as the currency of Britain's biggest trading partners. Increasingly, UK businesses will trade in euros. And if they are to meet the competitive challenge – and exploit the advantages of a more transparent market – they will have to frame their strategies in euros too.

The government's firm declaration of intent should speed up this process and reduce the risk that Britain will once again be left lagging behind a movement in Europe that it cannot stop and must eventually join.

Of course, yesterday's statement, and the accompanying plan for a changeover from sterling to the euro, is only the beginning of a difficult process. On the political front, the government must convince the public that this next step in European integration is desirable as well as inevitable.

Mr Blair was right yesterday to focus on the economic issues. He was right also to conclude that Britain cannot afford to remain aloof from the grand project of its continental partners. But clearly the timing remains problematic. Economic and monetary conditions in the UK have moved closer to those in the euro-zone, but there is still a considerable gap.

The government's decision to join the euro still depends on that gap being bridged. But at last Mr Blair seems committed to narrowing it, rather than using economic uncertainties as an excuse for indecision. If he continues to lead decisively, there is a fair chance that business and the markets will follow.



Germany's blame game

Europe's largest economy is trying to find a scapegoat for its shrinking GDP, rather than agreeing on compromises that could lead to solutions, writes Tony Barber

Europe's largest economy is in deep trouble. If you didn't know it from last Friday's news that the German economy shrank in the final three months of 1998 you would soon learn it from the gush of bickering about whose fault it is.

Germany's ruling Social Democrats blame the independent *European Central Bank* for not stimulating growth in the euro-zone by means of a cut in interest rates. The ECB and its supporters in the Bundesbank criticise the government for failing to introduce labour market reforms and for wavering in its commitment to fiscal discipline.

Employers pour scorn on the government's tax policies and denounce trade unions for insisting on unaffordable wage increases. Trade unionists attack industrialists for not believing in government-sponsored talks on job creation and for not wanting to share record profits with their workforces.

Even within the two parties that make up the ruling coalition in Bonn, supporters of Chancellor Gerhard Schröder bicker with the SPD's left wing and the environmentalist Greens over who is responsible for the supposed incoherence of government economic policy. "When agreements have a half-life of just a few hours, it is hard to lead a coalition successfully," Jürgen Trittin, a Greens minister, said in a recent swipe at Mr Schröder's leadership qualities.

This outbreak of claim and counter-claim, accusation and counter-accusation bears witness to the frustration felt by those charged with the task of reviving what was once the locomotive of Europe. The 0.4 per cent quarter-on-quarter contraction in gross domestic product coincided with the publication of a closely-watched business climate index that showed a drop for the eighth successive month in the confidence of German businessmen. Worse may be to come. The previous day, the nation's largest trade union, IG Metall, secured an annual wage increase of about 4 per cent that many businessmen and economists described as almost certain to price companies out of markets and workers out of jobs.

"The agreement in the metal industry will jeopardise the international competitiveness of German industry and reduce profit growth," said Gerhard Grebe of the investment bank Julius Bär.

The *wage settlement* was one factor behind the ECB's decision last Thursday not to bow to the *demands of Oskar Lafontaine*, finance minister, for a cut in short-term euro-zone interest rates from their present level of 3 per cent. As Wim Duisenberg, ECB president, said: "My preliminary impression is that this is a wage rise that may exceed productivity growth, and we fear that could give a signal for the rest of Europe, which we would not welcome."

Taken as a whole, recent developments suggest that the scale and complexity of Germany's economic challenges exceed anything the nation has faced since the impact of re-unification in 1989 or even since the first oil shock in 1973.

Germany's troubles go beyond the immediate risk that it may experience a recession, defined as a fall in GDP over two successive quarters. Most economists expect a mild recovery to start in the first half of this year and to accelerate thereafter, even though some doubt the government will hit its target of 2 per cent annual growth for 1999.

The bigger problem is that Germany is caught up in a vortex of international economic change that demands faster, more imaginative responses from political and business leaders, if the nation is to stay competitive and unemployment – at 4m, the highest since Hitler came to power – is to come down further.

Yet the new German government's fraught relationship with the ECB, coupled with the country's creaking industrial relations machinery, mean that such responses are proving no easier to find than under the previous government of Helmut Kohl.

The principal reason for the contraction in GDP late last year was a slowdown in German exports, caused mainly by Japan's recession, the financial and economic turmoil in south-east Asia and the Russian economy's virtual collapse.

If Brazil's recent devaluation harms the rest of Latin America, Germany's export problem may continue. Indeed, had it not been for the continuing appetite for German products shown last year by the still strongly expanding US economy, as well as by Germany's "home market" in the *European Union, the fall in GDP* would have been even sharper.

Yet growing signs of economic weakness in the euro-zone, and the risk that the consumer-fuelled US boom will tail off, mean that Germany must find different ways to sustain growth and employment. For Mr Schröder, who won power last September largely because of the Kohl government's failure to reduce unemployment, it is a matter of political life or death.

Mr Lafontaine and his finance ministry advisers think they have the answer. It lies in an ECB rate cut, a euro that is stable but not too strong, a boost to consumer demand from tax reforms and private sector wage increases, and possibly even an increase in government spending. Only such measures, they say, are adequate to cope with the shock inflicted by the global turmoil of the past 20 months.

> **'Labour and goods markets must become more flexible, like in the US'**

As Mr Lafontaine put it in a report this month to the 10 other euro-zone member-states: "Monetary policy is certainly the preferred instrument to respond to this shock. If it is not used, fiscal measures cannot be ruled out, because the option of doing nothing could turn out to be extremely expensive."

The ECB's diagnosis is fundamentally different, as Mr Duisenberg made plain on Monday in Stuttgart. Using language that could hardly have contradicted Mr Lafontaine more directly, he said: "The main cause of unemployment is not a lack of domestic demand. It is structural. Monetary policy can do nothing about it, and neither can demand-side policies. Labour and goods markets must become more flexible, like in the US."

In a counter-thrust to Mr Lafontaine's threat to spend Ger*many's way out of trouble, Mr* Duisenberg also suggested that Germany was among those euro-zone countries that must do more to contain their budget deficits.

It was a barbed remark – Mr Lafontaine's conservative predecessor, Theo Waigel, was the EU's champion of budgetary rigour. But Mr Duisenberg's barely disguised rebukes to Mr Lafontaine implied a gulf between the finance ministry and the ECB so wide that the only loser in the short term is likely to be the German economy. For the showdown between the two power centres is denying the economy both the cut in interest rates and the labour market reforms that many economists think would be the best combined remedy for Germany's ills.

It makes matters worse that the government this month lost its majority in the Bundesrat, the upper house of parliament, as a result of an election defeat in the state of Hesse. Mr Schröder's legislative programme now runs the risk of running into the kind of *reformstau*, or reform gridlock, that paralysed Mr Kohl in his last two years as chancellor.

Matters are no more encouraging on the labour front. Industrialists had scarcely signed their agreement with IG Metall before they were lamenting the consequences. "Everything that has happened during the wage talks has done nothing to create jobs but merely destroyed them," said Hans-Olaf Henkel, head of the federation of German industry.

Some economists agree. According to the calculations of HSBC Economics and Investment Strategy, real wages in German industry will grow by 2.5 per cent this year. And every 1 per cent rise leads, after a time lag of 12-18 months, to a 0.6 per cent fall in employment. If accurate, the analysis suggests persistent trouble next year for Mr Schröder on the all-important question of jobs.

But the underlying issue is whether it remains appropriate for Germany to hold annual collective pay bargaining rounds for entire industrial sectors whose companies differ so hugely in size, productivity and earnings.

This point is understood in *eastern Germany, where wage* deals tailored to specific companies are increasingly common. But whereas 75 per cent of eastern workers are outside collective bargaining structures, two-thirds of western workers are still inside them.

Rigid collective bargaining in the west may ultimately be doomed, but it is unlikely to disappear without concerted resistance from trade unions such as IG Metall.

Here lies one clue to the tensions characterising German society and the political arena. Germany's adjustment to the sharper competitive conditions thrown up by the globalisation of markets and the euro's launch is compelling multinational companies, medium-sized businesses, trade unions, non-unionised labour and other groups to defend their various interests. These differ rather more from each other now than they did in the 1950s and 1960s, the heyday of the former West Germany's *Wirtschaftswunder* (economic miracle).

At the same time, the ECB and Mr Schröder's government are both determined to fight their corner: the first to secure its credibility as a central bank; and the second to show that Germany's first Social Democrat-led government in 16 years will have solid achievements to its credit.

Five months after Mr Schröder's election victory, it is too soon to tell whether the government and ECB, like employers and workers, will compromise with each other sufficiently to allow a sustained effort at economic reform. The German economy needs such an effort, but it may be that the country deserves its growing reputation for gridlock better than its earlier renown as a model of consensual government.

OBSERVER

Royal smokescreen

The late King Hussein of Jordan will be honoured for many things, but smokers may want to erect a statue in his memory.

An inveterate smoker – Observer slipped him cigarettes during one failed attempt to give up – the King was being treated before his death at Minnesota's Mayo Clinic. When he was last there in 1992, his surreptitious puffing led to a reprimand by a Mayo executive. No sooner had he left than he and his private physician promptly lit up.

But the US anti-smoking offensive had advanced considerably by the time Hussein *checked back into the clinic last* summer. So was the great survivor of wars against Israel, civil wars against the Palestinians and serial coup and assassination attempts about to meet his match? Hardly.

He secured a local court decision protecting the hospital from litigants while allowing the King to carry on puffing. His quarters were sealed and fitted with an autonomous air extraction system to sequester the noxious fumes. Doubtless it all began behind the bike shed during schooldays at Harrow.

Devil in the detail

There was much sniffing in some quarters about the "Franco-French" nature of Société Générale's agreed takeover of Paribas.

But there seems to be hope yet. All documents being prepared by the 17 working parties planning the integrated SG Paribas are in English.

Hailing a Cab

UBS, Europe's biggest bank, has been steadfastly tight-lipped on the exact size of the pay-off to former chairman Mathis Cabiallavetta, who was forced to walk the plank last year after the bank lost a big gamble on hedge funds.

Since he'd only been chairman for three months, it's highly unlikely we're talking *mega-bucks. But the scale of* Cab's "golden goodbye" has nevertheless attracted much musical ribaldry at this week's annual Fasnacht carnival in Basel – UBS's new home town – where UBS chief executive Marcel Ospel has been dressing up and wholeheartedly entering into the spirit of the occasion.

One verse in a popular festival song strikes a decidedly harmonious chord with Observer. It describes how Ospel comforts Cab with the words "No problem. I'm your friend and the bank will pay you another 10 year's salary". With Ospel's face hidden behind a large mask for most of the week, his response has gone unrecorded. Let's hope the mask slips just a little when he takes exactly the same question at UBS's annual press conference next month.

Banner manners

They're often suspiciously well-dressed. Their banners, too, are professionally made and new. They're the rent-a-crowd, one of the few businesses in Indonesia that's still booming.

In a country where the government spends millions creating often fictitious jobs for the unemployed, they're also among the more effective employment schemes. Senior politicians, business executives and military generals regularly dole out cash to gangs of city poor who pose as protesters on *their behalf.*

Last week, a group of young men, some dressed as clowns, protested loudly in front of the attorney general's office. But instead of demanding that former president Suharto be put on trial for corruption, the Anti-anarchy Youths and Anti-revolution Youths and Student Front demanded that he should be left in peace. Fat chance, with all that noisy demonstrating going on.

Selling Uncle Sam

James Traficant is at it again. The US democratic congressman from Ohio has just introduced legislation that would put every consumer on the end of a toll-free phone number so they can find out whether the goods they buy are made in the good old US of A.

Traficant explains: "An educated consumer is a better consumer. This will make the consumer not only more educated and informed, but patriotic." But his Made in America Information Act will mean a registration fee for companies making their products in the US – and an annual fee to continue their listing, so it may not be welcomed quite so warmly as the congressman hopes.

Traficant insists, *however*, Americans are increasingly keen to buy from Uncle Sam and says he won't stop pushing until his *idea is signed into law." In the* last Congress, he busied himself adding Buy American amendments to every major spending bill enacted into law. One of these days, he might just make his point.

Closing chapter

The nasty spat between Oskar Lafontaine, Germany's finance minister, and Wim Duisenberg, president of the European central bank, seems to be getting somewhat serious.

Duisenberg admits he's not read the book, "No Worries About Globalisation" that Lafontaine wrote with his wife Christa Müller. "I don't want to read it either," he sniffs.

The Financial Times

100 years ago

Optimism in Italy
The tariff war which raged for so many years between France and Italy injured both, but whereas France was rich enough to sustain loss without feeling it too much, the somewhat limited resources of Italy were seriously jeopardised by the unfortunate state of her commercial intercourse with the Republic. The moral support of the other members of the Triple Alliance did not make up for the withdrawal of French capital, particularly as the rupture with France almost coincided with a series of bank scandals in Rome and Naples.

50 years ago

U.S. Rail Traffic Down
Washington, Feb. 23.
According to the Association of American Railroads, freight loadings in the first six weeks of 1949 were 392,204 cars less than a year before. The decline was attributed to shrinking business volume, severe storms in the West and mild weather in the East. The latter reduced the diversion of traffic from river to rail transportation.

FINANCIAL TIMES
WEDNESDAY FEBRUARY 24 1999

THE LEX COLUMN

Balanced Greenspan

Alan Greenspan's skill at tightrope-walking would have won him prizes as a gymnast. On one side looms the threat of further global turmoil and a sharp slowdown in the US economy. On the other, is the danger of too-rapid domestic growth triggering inflation. But so far, the economy, the Federal Reserve and its chairman remain finely balanced in the middle. The clear message is that US interest rates will stay on hold for now.

In reality, the risks are more lop-sided. Mr Greenspan, along with almost everybody else, has been wrongly expecting the US to slow for the past two years. Given that rates have been cut by 75 basis points, stocks are back near record highs and Asia is recovering, the strength of US growth may well surprise again. Even the Fed has revised its 1999 GDP forecast up to 2½-3 per cent. With the labour market critically tight, this will inevitably generate inflation. Mr Greenspan acknowledged as much – and spooked the bond market – by warning that the Fed must evaluate whether it might have eased too much last autumn.

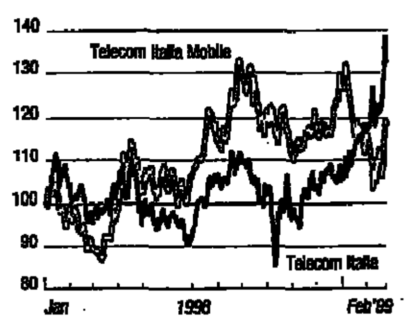
That single comment, however, was buried in a painfully even-handed speech. Until a clearer picture emerges, Mr Greenspan seems determined to hold fire. But if the economy continues to boom, the danger is that by the time the Fed does decide to tighten policy, it will have to raise rates sharply and end up choking off the current expansion.

Telecom Italia

Telecom Italia's scheme to merge with Telecom Italia Mobile (TIM) may seem designed to thwart Olivetti's hostile intentions. It would, after all, increase the cost of buying Telecom from €53bn to about €73bn, probably putting it beyond Olivetti's reach. But such a manoeuvre would only be a poison pill if Telecom planned to foist it on investors without gaining their approval. Fortunately, Telecom has no such intention. That means shareholders will have an opportunity to choose between both Telecom's and Olivetti's proposals.

At first blush, Telecom's scheme looks sensible. There is industrial logic in combining its wireline and mobile businesses. The current arrangement – Telecom owns only 60 per cent of TIM – prevents the group gaining the full benefits from the convergence of fixed and mobile telecoms. A deal could make financial sense too. With only €10bn of debt, Telecom is undergeared. Buying the TIM minority at a cost of around €20bn would produce a suitably taut balance sheet, though not nearly as stretched as what Olivetti is proposing. While it is at it, Telecom could also buy out its own saving shares, an anachronistic class of non-voting equity. Much of the extra cost would be recouped via Telecom's plan to dispose of non-core assets. Hostile bids do have a wonderful way of galvanising management into action.

Telecom Italia/Telecom Italia Mobile
Share prices relative to the FTSE Eurotop 100 Index



Source: Datastream/ICV

BSkyB/Canal Plus

How to enrich shareholders in one easy lesson: form a monopoly. That was what Rupert Murdoch achieved so spectacularly when he put Sky and BSB together in the UK. His scheme to merge BSkyB and France's Canal Plus is designed to have the same effect in Europe.

A non-aggression pact between the region's two largest pay-television groups would mean less competition for sports and film rights. It would also form an excellent platform for pan-European TV as national media markets gradually coalesce.

There are, of course, huge obstacles to realising this dream: notably, would it pass muster with the competition authorities? Even if it does, a gigantic "if", there are tricky management and ownership issues. These, though, may not be insuperable. For example, the plan to have two chief executives – one responsible for the UK and one for France – sidesteps some management problems. There is still the question of who runs operations in other countries; but with goodwill that should be soluble.

Meanwhile, current market capitalisations suggest a 60:40 ownership split in BSkyB's favour. But that ignores the fact that France's Pathé, which owns 17 per cent of BSkyB, is in turn 30 per cent owned by Canal Plus and Vivendi, the latter's largest investor.

Treat the French as a single bloc and the split would be 50:50. Moreover, Vivendi/Pathé and Mr Murdoch's News Corporation would be equal shareholders with stakes of about 25 per cent. Really quite neat.

Unilever

Unilever has a habit of setting off February fireworks. Two years ago it announced plans to sell its speciality chemicals business in "Project Touchpaper". Now shareholders will receive the £5bn proceeds. But the latest pyrotechnics also illuminate one of the big issues for 1999: big lump-sum payouts to shareholders. Last year, European companies completed well over €20bn of share buybacks. That figure could easily shoot up by two thirds this year, helped by more liberal rules in the UK, France and Germany. What Unilever has shown is that no matter how awkward the national regulations, a way can be found to create value for shareholders by tightening up the balance sheet.

The complications for Unilever were not limited to Dutch tax law. The company has a negligible share premium account, which meant the B-share method of returning original capital had to be ruled out. That route will remain more attractive to many companies because, for tax reasons, some investors prefer capital to income.

But the main point is Unilever has done the right thing. The exercise knocks nearly one percentage point off its cost of capital and enhances earnings per share. With borrowings of little more than £1bn, it will still have plenty of headroom for a multi-billion pound acquisition.

Tokyo's stake in banks could be as high as 60%

Potential holdings pose questions on protecting public funds

By Gillian Tett and Naoko Nakamae in Tokyo

A planned injection of at least ¥7,450bn ($64bn) of public funds into Japanese banks could leave the government with substantial stakes in several big financial institutions.

Preliminary calculations by government officials and bank analysts suggest that the government's stake in Daiwa Bank, Chuo Trust, Mitsui Trust and Sakura Bank may rise to between 30 and 60 per cent.

Officials stress that these estimates are preliminary because the government has not yet decided how much of the ¥7,450bn will be used to buy shares or simply remain in the form of non-convertible loans.

The final details of the capital injection are still being negotiated between the banks and the Financial Reconstruction Commission, the government body responsible for implementing reform.

But the scale of potential state ownership is likely to raise questions about how the government will manage such stakes and ensure that public funds are not wasted.

Yukiko Ohara, banking analyst at Morgan Stanley, believes the capital injection could lead to government ownership of about 50 per cent of six banks. "And we anticipate another injection of public funds in fiscal 1999," she said.

The FRC has already indicated that it hopes to inject at least ¥7,450bn into banks' capital bases by the end of March. This will come out of ¥25,000bn made available for this purpose.

The FRC is still unsure whether this injection will take the form of convertible preference shares, or how long it will hold the shares before selling them into the market. It is also undecided about the conversion price.

However, government officials admit that, if the FRC converted its capital injections into shares at current market prices, the government could end up holding about 60 per cent of Mitsui Trust and Chuo Trust, 50 per cent of Daiwa Bank, 45 per cent of Sakura Bank, and 30 per cent in each of Tokai Bank and Toyo Trust.

Even if the largest banks press ahead with their plans to raise about ¥2,000bn of capital from the markets and companies with which they are linked, analysts warn that more public injections will be needed later, which could further increase the government's stake.

Sakura, for example, is planning to raise at least ¥350bn of capital from related companies in addition to the ¥800bn it is requesting from the government. But some banking analysts and western diplomats fear such capital injections will be inadequate to cope with the scale of bad loans.

Andrew Smithers, a consultant, said: "The amount of capital needed by Japan's banks and other financial institutions is widely disputed. But sources within the regulatory authorities put the figure at about ¥100,000bn – which means that the public funds earmarked for recapitalisation may be inadequate."

The government has already nationalised two banks, Long Term Credit Bank of Japan and Nippon Credit Bank. Although the government yesterday said it hoped to sell LTCB within three months, it has agreed to remove only a small proportion of LTCB's bad loans from the bank.

US seeks to reassure exporters over technology sales to China

By James Kynge and James Harding in Beijing and Stephen Fidler in Washington

The US yesterday attempted to reassure its exporters that Washington's rejection of a $450m satellite sale to China would not stiffen curbs on technology trade.

Kenneth Lieberthal, the US national security council's senior director for Asia, said in Beijing that there could be "minor adjustments" in the conduct of US technology trade with China, but did not say what these might be. "I don't anticipate a major change in the legislative environment that governs our trade with China. I don't think there will be a *fundamental* change," he said.

His remarks followed the rejection by Washington of the sale of a satellite manufactured by Hughes Space and Communications International to a Chinese-Singapore consortium. Hughes had planned to launch the satellite on a Chinese Long March rocket.

The rejection, yet to be formally confirmed to the company and still subject to appeal, reverses a US policy that has promoted such co-operation. Although the Commerce Department favoured the sale, it was overruled by the national security concerns of other agencies, notably the State and Defence departments. The State department had separate concerns about the launch which, US officials said, were likely to lead to its rejection.

The rejection, disclosed as imminent in the Financial Times on Monday, has aroused concerns that Washington is implementing a *de facto* ban on selling satellites to any entity with China ties.

US businessmen in Beijing yesterday complained that a recent US House of Representatives report on the transfer of military-related technology to China threatened to delay sales of a range of products.

Mr Lieberthal played down the possibility that the US might construct an international export control regime directed at China, similar to that used during the Cold War to prevent the transfer of sensitive technologies to the Soviet Union. "I can't tell you exactly where we will end up but I don't think we are going to see a fundamental change in our approach."

US businessmen have also been concerned that sales of high-performance computers to China could be affected by congressional demands for China to permit surprise inspections of US computers on its soil.

The concern is that if Beijing rejects the demand, the US could retaliate by restricting computer exports.

CONTENTS

Rescue workers use a mechanical digger in the search for people still missing after Monday's avalanche in Evolene, Switzerland. Page 2

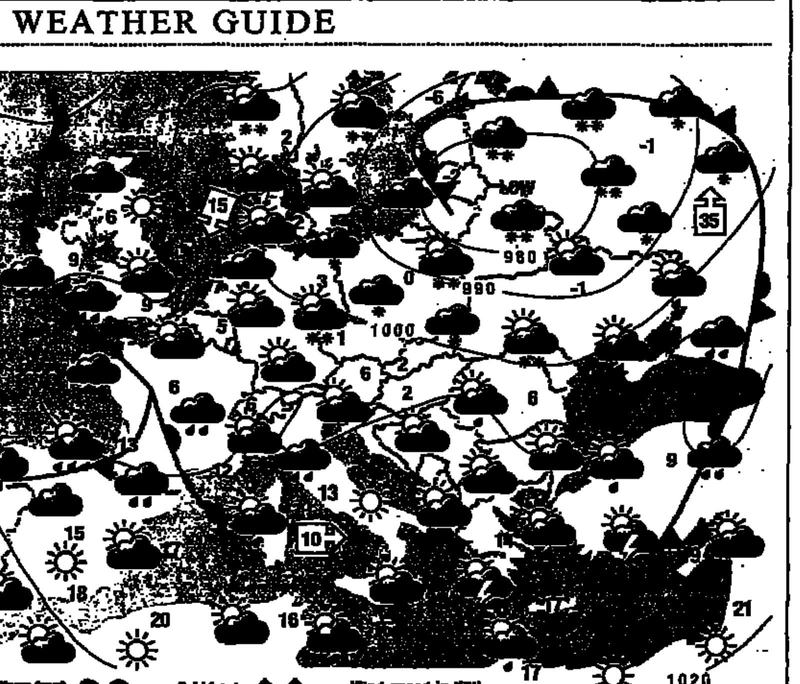
FT WEATHER GUIDE

Europe today

Southern and western France will have rain which will turn to snow as it reaches the western Alps. The Low countries, north-east France and south-western Scandinavia will be chilly but bright. Eastern Scandinavia, Germany, Poland, the Baltic States and western Russia will have a lot of fresh snow. The central and eastern Mediterranean can expect sunshine and occasional showers but southern Spain and Portugal will have warm sunshine.

Five-day forecast

Tomorrow will be very showery over much of Italy and the Balkans. This disturbed weather will track south-eastwards to affect Greece on Friday and Saturday. Most of central and north-west Europe will be largely fine tomorrow and Friday but unsettled weather across the British Isles will spread south-eastwards on Saturday.



Situation at midday. Temperatures maximum for day. Forecasts by PA WEATHERCENTRE

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Fair	31
Accra	Fair	33
Algiers	Fair	20
Amsterdam	Cloudy	7
Athens	Thunder	14
Atlanta	Shower	4
B. Aires	Fair	29
B.ham	Fair	7
Bangkok	Sun	33
Barcelona	Shower	16
Beijing	Fair	10
Belfast	Fair	7
Belgrade	Fair	6
Berlin	Snow	3
Bermuda	Rain	17
Bogota	Cloudy	18
Bombay	Sun	35
Brussels	Fair	5
Budapest	Fair	4
C.hagen	Fair	2
Cairo	Sun	21
Caracas	Fair	28
Cardiff	Fair	7
Casablanca	Fair	19
Chicago	Snow	3
Cologne	Sleet	4
Dakar	Sun	23
Dallas	Sun	21
Delhi	Fair	28
Dubai	Fair	29
Dublin	Fair	9
Dubrovnik	Shower	13
Edinburgh	Sun	5
Faro	Fair	19
Frankfurt	Sleet	4
Geneva	Rain	8
Gibraltar	Fair	20
Glasgow	Fair	6
Hamburg	Sleet	4
Helsinki	Snow	-6
Hong Kong	Sun	24
Honolulu	Fair	28
Istanbul	Shower	12
Jakarta	Cloudy	29
Jersey	Shower	9
Johannesburg	Fair	28
Karachi	Sun	30
Kuwait	Fair	23
L. Angeles	Sun	23
Las Palmas	Fair	22
Lima	Fair	28
Lisbon	Fair	18
London	Fair	9
Lux.bourg	Fair	4
Lyon	Rain	5
Madeira	Cloudy	18
Madrid	Cloudy	15
Majorca	Cloudy	17
Malta	Shower	16
Manchester	Fair	7
Manila	Fair	32
Melbourne	Fair	24
Mexico City	Fair	23
Miami	Fair	23
Milan	Fair	11
Montreal	Fair	-4
Moscow	Snow	-1
Munich	Sleet	3
Nairobi	Fair	30
Naples	Fair	15
Nassau	Fair	24
New York	Snow	1
Nice	Cloudy	12
Nicosia	Shower	19
Oslo	Fair	2
Paris	Rain	6
Perth	Sun	34
Prague	Snow	1
Rangoon	Sun	35
Reykjavik	Sleet	4
Rio	Fair	29
Rome	Fair	13
S. Frsco	Fair	17
Seoul	Cloudy	12
Singapore	Cloudy	30
Stockholm	Snow	-3
Strasbourg	Shower	4
Sydney	Shower	24
Tangier	Fair	16
Tel Aviv	Fair	21
Tokyo	Rain	12
Toronto	Fair	-1
Vancouver	Rain	13
Venice	Fair	8
Vienna	Fair	9
Warsaw	Snow	0
Washington	Snow	2
Wellington	Fair	19
Winnipeg	Fair	-2
Zurich	Shower	3

FINANCIAL TIMES
COMPANIES & MARKETS
WEDNESDAY FEBRUARY 24 1999

INSIDE

Euro hits new low against dollar
The euro fell to a new low against the dollar as economic policy in the euro-zone sank into further disarray and the running spat between Wim Duisenberg, European central bank president, and Oskar Lafontaine, the German finance minister, continued. Page 25

Navistar ducks Volvo bid speculation
Navistar, the Chicago-based truck and engine manufacturer that Volvo has considered acquiring, stayed silent about the state of any discussions with the Swedish group as it faced shareholders at its annual meeting. Page 19

NZ kiwifruit industry full of zest

The once-troubled New Zealand kiwifruit industry has ended a dream global selling season, giving orchard owners their best returns for a decade. Sales in the season to last month hit a new high in revenue terms, and were 20 per cent a tray higher than a year earlier. The success was credited to effective marketing, a productivity rise and a big fall in the New Zealand dollar. Page 26

Venture capitalists catch e-fever
Has Europe's venture capital community caught internet fever just as it starts to cool on the other side of the Atlantic? A series of recent deals suggests so. Page 22

European stock markets advance
European stock markets posted further gains despite another poor showing by the euro and early weakness in the US market. Page 23

Metals mining mergers increase
Almost $26bn was spent on mergers and acquisitions in the metals mining and refining industry in 1998. The total was over 38 per cent more than acquisition spending in 1997. Page 26

Taiwan loosens foreign owner limits
Taiwan's decision to loosen limits on foreign ownership of listed companies, allowing them to buy up to 50 per cent of their stock, has raised hopes of an increase in overseas investment to support a faltering market. Foreigners own less than 4 per cent of the market. Page 36

Silver prices on the rise
Silver prices are expected to reach $7.50 an ounce in the second half of this year and $8 to $10 by the year 2000, according to an annual silver survey released by CPM Group, a New York research group. Page 26

Papua New Guinea plans debut bond
Papua New Guinea is planning to launch a debut international bond, which is likely to be a five-year $250m issue targeted at Australian and European investors. Page 24

COMPANIES IN THIS ISSUE

CROSSWORD, Page 26

MARKET STATISTICS

Dispute hits London-Frankfurt link

Stock exchanges fall out over planned trading system

By Uta Harnischfeger in Frankfurt and Vincent Boland in London

The London and Frankfurt stock exchanges are disputing how to structure the ownership of their proposed pan-European system for trading shares in Europe's leading companies.

The disagreement is the first serious problem facing the alliance, which was unveiled in July.

The exchanges are also divided over which family of equity indices will be associated with the new system.

Protracted differences between the two exchanges over the issues could upset the timetable for bringing forward the trading platform.

It is expected to be in place some time next year but ownership and index questions have to be resolved by the third quarter of 1999, according to the initial timetable for the alliance.

Someone familiar with the talks said: "London wants ownership [of the proposed new trading system] to be based on market capitalisation of the two exchanges, while Frankfurt wants it to be based on trading turnover." The London exchange's market capitalisation is about twice that of Frankfurt, but turnover is higher in German equity trading than in UK trading.

If ownership were structured on the basis of market capitalisation, London would have a dominant share of the new system, while on a trading volume basis the share would be roughly equal.

Ownership may be further complicated by the likelihood that six other European stock exchanges will join the alliance soon. The London stock exchange said: "There are many areas where we are making good progress, but clearly there are some that will require a lot of discussion before they are resolved."

The two exchanges have agreed to a "common index policy" by the third quarter of 1999.

This is understood to mean that a single family of equity indices will have been selected. It will require significant compromises from both London and Frankfurt, which have relationships with FTSE International and Dow Jones respectively.

However, MSCI, the leading US index provider, is also muscling in on the benchmark battle in pan-European equity markets.

Another issue is whether there should be a new electronic trading platform or the use of Sets, the London exchange's order book, or Xetra, the system in use in Frankfurt.

The London/Frankfurt initiative is designed to create a single trading platform for the shares of Europe's top 300 companies.

CSFB not thought to have been hit by loss

By Jane Martinson, Investment Correspondent

Credit Suisse First Boston, the Swiss-US investment bank, is understood to have sustained no material loss as a result of the activities of three share traders suspended last week.

The three men, James Archer, son of Lord Archer, the Tory peer, David Crisanti, and Adrian Ezra, are believed to have been suspended over compliance failures.

Before their suspension, they were due to receive bonuses of several hundred thousand pounds. The trio were members of the Flaming Ferraris, a high-living group named after a favoured cocktail.

They were expected to receive large bonuses after a strong performance last year based on betting on anomalies between index prices and futures contracts. Mr Crisanti's team had earned a reputation for taking large bets on share price movements throughout European markets.

The CSFB index arbitrage team, which includes traders around the world, is understood to have generated revenues of about £100m ($160m) last year. However, the London team is understood to have contributed less than half of that total.

The full nature of the trio's activities is unclear. A CSFB investigation is expected to take some weeks and details of compliance breaches may never be released. The Securities and Futures Authority, the City watchdog, has been notified of the alleged transgressions.

Market sources have speculated that the trio may have breached internal requirements such as marking down prices. Any breach would have to be significant to warrant a suspension.

Investment banks are notoriously wary of talking about equity arbitrage activities partly because profits are based on small price movements. Any leak could have significant consequences.

CSFB is unlikely to make any reference to the activities of the three men at its results announcements in two weeks' time when it should outline the impact of last year's Russian crisis. CSFB was reported to have suffered significant losses as a result of its exposure to Russia.

Unilever hands back $8bn cash to shareholders

By John Willman, Consumer Industries Editor

Unilever is to hand £5bn ($8bn) to shareholders with a special dividend described by the Anglo-Dutch consumer group as the largest-ever one-off payout by a company.

The distribution – worth 10.8 per cent of Unilever's market capitalisation – returns the proceeds from the sale of the group's speciality chemicals business to ICI in 1997.

Niall Fitzgerald, co-chairman of Unilever with Morris Tabaksblat, said the group had sought opportunities to invest the proceeds but had been unable to find very large acquisitions that represented reasonable value for shareholders.

"This distribution will reduce our cost of capital and increase shareholder value," he said. He added that, even after the payment, Unilever's balance sheet would be strong enough to finance any major acquisitions.

The special dividend will be accompanied by a consolidation of the share capital with 100 new shares for 112 old ones.

Individual Dutch shareholders would face income tax on a cash distribution at up to 60 per cent. They will be offered the option of preference shares, redeemable after five years to avoid income tax on the distribution – Unilever expects these to be sold on to tax-exempt institutions.

The payout was announced with the group's results for 1998 which showed pre-tax profit down 35 per cent at £3.085bn (£4.719bn the previous year) after last year's exceptional profit on the sale of the speciality chemicals business. Before all exceptional items, pre-tax profit rose 3 per cent to £3.0bn (£2.9bn).

Margins were at a record high for Unilever, at 10.7 per cent before exceptional items. After-tax margins had exceeded 7 per cent for the first time ever, Mr Fitzgerald said. Turnover fell 9 per cent to £27.094bn (£29.766bn), largely because of currency fluctuations. Sales at constant exchange rates were slightly up in most regions but down 4 per cent in Europe.

Earnings per share fell 41 per cent from 44.74p to 26.45p. The final dividend is 7.75p (5.62p), taking the total for the year to 10.7p (8.42p).


Dutch treat: Unilever co-chairman Morris Tabaksblat at his Rotterdam press conference yesterday Reuters

Unilever shares fell 1p to 624½p in London, having risen 7 per cent on Monday after news of the payout became known.

Shares in the Dutch wing rose 1.75 per cent, or 1.2 euros, to end at 69.50.

Lex, Page 16
Buyback bonanza, Page 14
Chairman loves surprises, Page 21

Bank of Montreal overhauls core concerns

By Edward Alden in Toronto

Matthew Barrett, chairman and chief executive of Bank of Montreal, stepped down yesterday as the Canadian bank unveiled a thorough overhaul of its operations.

The new strategy is intended to refocus and narrow the bank's operations after the Canadian government blocked its plans to merge with the Royal Bank of Canada last year.

The two banks had proposed the largest merger in Canadian corporate history but failed to win government approval in the face of hostile public opinion.

Mr Barrett, 54, who has been with the bank since the age of 18, was hoping to retire gracefully this year after completing the merger.

Instead he has handed over the reins as chief executive to Anthony Comper, his president and chief operating officer. Mr Barrett will remain chairman until the end of the fiscal year in November.

"I don't have the luxury of regret," Mr Barrett told reporters at the bank's annual general meeting in Halifax. "You try some things and, if they don't work, you move on."

Four of Canada's big five banks said during the merger debate last year that if their plans were rejected they would be forced instead to streamline their operations and focus on core businesses.

The Canadian Imperial Bank of Commerce has already pulled back from its ambitions to be a global investment banker, while Toronto-Dominion Bank is concentrating on its lucrative discount brokerage business. Mr Comper said yesterday that Bank of Montreal will institute "value-based management" in which each of its 32 lines of business will be responsible for developing its own strategies, improving productivity and increasing value to shareholders.

The bank will be reorganised into three clusters: retail and commercial, wealth management and corporate. Retail and corporate, which generates about two-thirds of the bank's revenue, will be the primary focus.

The bank will aim to boost its return on equity from 15 per cent in the last fiscal year to between 18 and 20 per cent over the next four years.

Mr Barrett acknowledged that the new strategy was "Plan B" but said it had been under development last year as a contingency against rejection of the merger proposal by the government.

Bank of Montreal also reported first quarter net income yesterday of C$362m ($242.9m), or C$1.24 per share, little changed from earnings of C$361m or C$1.27 per share in the same period last year.


BARRY RILEY

Reading it wrong again

After the disaster of 1997, when UK pension fund managers underperformed the World ex UK Index by 12 to 13 percentage points in their overseas equity portfolios, surely 1998 could only be better. Indeed it was, but not much: there was further slippage of some 5 percentage points in overseas equities, according to statistics from The WM Company.

In UK equities, too, though less strikingly, UK institutions have continued to lag, embarrassed by the extraordinary relative gains by multinational stocks. Underperformance was 1.5 percentage points for 1998, worse than 1997's 1.0 points.

Many funds took advantage of the final quarter's booming markets to take profits and continue their maturity-driven strategic shift into bonds. Cash was reduced by £1bn in the WM All Funds Universe in October-December and equities by £0.8bn (especially in continental Europe) while some £1.7bn went into bonds.

A misreading of global equities continues to be the big problem of the UK-based fund houses. In two years, the pension fund managers have undershot the World ex UK cumulative total return of 45 per cent by an astonishing 19 percentage points – an opportunity cost of some £20bn ($32.6bn) for UK occupational pension funds as a whole.

There has been little obvious strategic response. Fund managers remain hugely underweight in the US – 22 per cent of their overseas equity portfolios compared with the 57 per cent index weighting. The compensating very overweight position in continental Europe actually rose in 1998 to 49 per cent.

Perhaps the response is slow because UK managers normally regard their performance against each other as more important than their absolute returns. Anyway, they are frightened of closing out their gigantic bet against Wall Street at the wrong moment.

In fact US underexposure did not greatly contribute to weak relative performance in 1998 when continental bourses gave slightly higher returns than Wall Street. Instead the shortfall can be blamed on the big initial exposure to Asia and emerging markets, where returns were negative, and on US stock selection problems due to last year's megacap performance skew.

There is no sign of compromise at the leading value house, Phillips & Drew, the third biggest manager of UK pension funds and recently just about the worst performer. Its latest research paper is entirely unrepentant. P & D is right and the rest of the world has gone crazy – to the extent, it claims, that megacap stocks are overvalued by perhaps 60 per cent.

The alleged distortion is attributed to indexation, both of the overt and closet varieties. The current market situation, it alleges, is "increasingly unstable and economically damaging".

Yet it does not satisfactorily explain how the world's most liquid and apparently efficient markets can have become so seriously mispriced. And even if true, the analysis undermines the value manager's traditional assumption that stock prices will show a strong tendency to revert to "fair" value.

Phillips & Drew's particular error has been to pursue *absolute* rather than *relative* value. This has left its portfolios underinvested in a strong global bull market, and heavily exposed to companies in terminal decline.

If momentum effects can indeed be so powerful, all fund managers must take them into account. In fact, this line of reasoning could apply in retrospect to the outperformance by small and medium cap stocks in the 1960s, which may have been driven by the strong growth at that time of fund managers (including, in the UK, P & D) focused on those sectors. Maybe the 1990s resurgence of megacap stocks has represented, partly, a correction of a past distortion rather than the creation of an entirely new one.

Unlike P & D, most UK managers have simply run towards their benchmarks. But they cannot hide there for very long without seeing their mandates continue to drift towards the index-trackers.

INTERVIEW CHIEF EXECUTIVE SAYS OLIVETTI'S HOSTILE BID HAS FOCUSED ATTENTION ON A MUCH-NEEDED RESTRUCTURING

Bernabe looks to Telecom Italia's strengths

By Paul Betts

Franco Bernabe, Telecom Italia chief executive, has an unusual plan up his sleeve. If Olivetti's hostile bid for his giant company collapses, he said yesterday, he would send a gift to Roberto Colaninno, his Olivetti rival.

"This has been a lucky event for the company," he said. "Telecom has lots of problems but is solid and cash rich. Then all of a sudden it faces its biggest corporate crisis in 10 years. It mobilises the company, brings people together and focuses attention on defining our restructuring plans in a coherent and precise way."

Mr Bernabe clearly sees the challenge from Olivetti as an opportunity to galvanise the sprawling Telecom Italia into a much-needed restructuring.

He was parachuted in three months ago to reshape the group and restore morale after a period of turbulence.

The former chief executive of ENI, the oil and gas group, said Telecom Italia had already undergone dramatic change during the past two years – "a privatisation process without any clear leadership; a radical restructuring process of telephony in Italy without leadership; the opening of the Italian telecommunications market without leadership".

Yet Mr Bernabe did find some jewels. Telecom Italia – through its Telecom Italia Mobile (TIM) cellular subsidiary – had pioneered the mass market for mobile telephones and taken a leading position in Europe.

Mr Bernabe's strategy, which he will outline to unions today, consists of a series of steps designed to take advantage of Telecom Italia's strengths.

● Reorganising the company to focus on customer services, strengthening its reach in the mass market by combining Telecom Italia and TIM and adopting TIM's successful mass marketing techniques to mobile and fixed-line services.

● Focusing more on Italy's small and medium sized companies.

● Rationalising the company's heavy cost structure and myriad corporate entities throughout the country's regions. (He would not be drawn on job cuts.)

● Rationalising the company's portfolio of international activities.

● Divesting non-core assets including the group's huge property portfolio, subsidiaries such as Italtel, the 50 per cent owned telecommunications equipment maker, and Sirti, the engineering subsidiary, as well as shedding control of Stream, the digital pay-TV subsidiary.

● Finally, transforming the company into a quasi-Anglo-Saxon public company run by a management responsible to all its shareholders.

Italy has sought to emulate the French or Spanish models of developing stable core shareholding bases for large groups in the absence of a developed pension fund industry and big institutional investors in Italy.

"An Anglo-Saxon company does not need strong core shareholders. Some will be there, some will go. We can be flexible. We don't need a master who owns the group with 6-7 per cent," he said.

The problem was that politicians, who have often meddled in Telecom Italia, did not like this because they liked to influence core shareholders or interface with a big owner. "They cannot deal with a public company responding to the market," he said.

Surprise gift: Franco Bernabe sees bid as an opportunity AP

NEWS DIGEST

DEFENCE

Saab and Celsius fear spending cuts' impact

Saab and Celsius, two of Sweden's leading defence companies, expressed concern at the likely impact of government spending cuts totalling SKr4bn (US$498m) a year on future defence orders. Both companies, yesterday reporting increased full-year profits, fear a sharp drop in revenues and increased pressure on export sales if the Swedish government proceeds with a 10 per cent reduction in defence spending between 2001 and 2004. Saab, partly owned by British Aerospace, said it had already seen reduced demand in its military dynamics business which supplies guided weapons products to the armed forces. Saab reported a return to profit, reversing a SKr3.79bn pre-tax loss in 1997 with a gain last year of SKr912m – even though sales fell from SKr8.67bn to SKr8.25bn. Celsius reported a sharp increase in pre-tax profits to SKr590m from SKr280m following a restructuring of its defence arm and strong growth in commercial aero-space operations. It said sales rose 23 per cent to SKr14.3bn in spite of volatility on the defence side. However, optimism on the commercial aerospace and export prospects helped lift Celsius shares SKr12 to SKr126.50. Saab's most commonly traded B shares rose SKr0.50 to SKr75. Tim Burt, Stockholm

AIRLINES

Iberia predicts profits rise

Iberia, the Spanish airline group in the process of being privatised, expects to lift pre-tax profits by more than 30 per cent this year after doubling them last year to Pta41.7bn (€251m, $275m), Xabier de Irala, chairman, said yesterday. The group aimed to increase turnover by almost 5 per cent from last year's Pta667bn.

Iberia, which emerged from losses in 1996 after an injection of state capital, claimed the highest profitability ratio of any European airline, with provisional 1998 net earnings of Pta37.2bn compared with Pta17.1bn the year before. Following a deal with British Airways and American Airlines to take a joint 10 per cent stake, a second stage of privatisation is due next month with the sale of a further 30 per cent to institutional investors. David White, Madrid

AUTOMOBILE COMPONENTS

Ecia issues profits warning

Shares in Ecia, the components group majority-owned by Peugeot-Citroën, the French carmaker, lost ground yesterday after the company announced a sharp fall in annual income and issued a warning on 1999 profits. The company blamed the downturn in 1998 operating profit, to FFr1.33bn (€203m, US$224m) from a pro forma FFr1.56bn in 1997, on pricing pressure and a significant increase in research and development costs. The shares closed down just over 1 per cent at €95.9. David Owen, Paris

FRENCH RETAILING

Casino lifts sales 21%

Casino, the French retailing group, yesterday reported a 21.8 per cent rise in 1998 sales to €14.16bn (US$15.6bn) and predicted a similar rate of growth for this year. Net profits rose 27 per cent to €215.7m. The group said it was on course to hit €300m in 2000. Samer Iskandar, Paris

■ Ferrovial, Spain's biggest wholly family-owned construction group, plans to raise funds in an initial public offering scheduled for late April that could be worth some Pta150bn (€901m, $1bn), the biggest transaction by a private institution on Madrid's Bolsa. Tom Burns, Madrid

Ciba arm income decreases

By William Hall in Zurich

Ciba Specialty Chemicals yesterday reported a 35 per cent drop in net income before restructuring charges, to SFr369m ($254m). It also said it plans to slash capital spending and focus growth on five of its 10 businesses that offer "above-average" profit potential.

Ciba, weighed down by the costs of last year's SFr3.6bn acquisition of Allied Colloids, a UK water treatment firm, reported a 1998 net loss of SFr739m after writing off SFr1bn of in-process research and development related to Allied Colloids. Operating income rose 3 per cent to SFr877m, but a SFr246m rise in financing charges, primarily associated with the acquisition, took a heavy toll on the group's bottom line.

Rolf Meyer, chairman and chief executive, said the group had "maintained its operating performance in an increasingly difficult environment". Margins increased in additives, the biggest of Ciba's four divisions, and also in consumer care and colours. However, performance polymer margins were nearly halved.

Mr Meyer, who has been criticised for paying too much for Allied Colloids and for Ciba's abortive merger with Clariant, its main rival, yesterday stressed that his group was in good shape to weather the industry downturn. He did not share the view that the market would bottom out in mid-1999 and warned that if current trends continued Ciba's margins of 16.1 per cent could drop by one percentage point.

As a result Ciba is raising its 1999 cost-saving target from SFr100m to SFr150m and cutting last year's SFr459m capital spending by SFr100m.

Mr Mayer said Ciba's strategy had not changed since the collapse of the Clariant merger in December. However, the group was focusing more closely on its five growth businesses.

BSkyB and Canal Plus discuss merger

By John Gapper, Media Editor

British Sky Broadcasting and Canal Plus, the leading UK and French pay television broadcasters, have entered preliminary talks on a merger of the two companies to create what would become Europe's dominant pay broadcaster.

BSkyB, which is being advised by Goldman Sachs, is talking to Canal Plus following earlier discussions between Rupert Murdoch, whose News Corporation holds 40 per cent of BSkyB, and the French group.

Shares in both companies rose yesterday on a report in the Wall Street Journal about the talks. This follows the earlier disclosure of talks between News Corp and Canal Plus in the Financial Times and French and Italian newspapers.

Mark Booth, BSkyB chief executive, has become involved in talks with Canal Plus in the past two weeks, according to people close to the talks.

Although talks are at an early stage, the two companies are thought to be discussing a proposal to merge interests under a single company. They would operate as they do in the UK and France, but expand together elsewhere.

BSkyB directors are thought to favour a full merger rather than a pooling of interests outside France and the UK, one of the options discussed earlier by Mr Murdoch and Pierre Lescure, chairman of Canal Plus.

However, there are a number of potential obstacles to such a merger. These include potential opposition from the European Commission, and the dilution of News Corp's interest in BSkyB to about 25 per cent of the merged group.

Analysts remained sceptical yesterday about the chances of any combination of interests being approved by regulators. It would not only end competition between the two in Italian pay television, but prevent competition elsewhere.

Mr Booth and Mr Lescure could become co-chief executives of any merged group, according to one person close to talks. However, talks have not yet reached detailed discussion of senior executive and non-executive roles.

A crucial element in the talks is likely to be the attitude of Pathé, the French media company that holds a 17 per cent stake in BSkyB. Canal Plus and its leading shareholder, Vivendi, have a joint stake of 24.6 per cent in Pathé.

Although there has been some discussion of pooling of pay television interests outside France, a merger has emerged as the most likely proposal to emerge from talks. Mr Murdoch earlier favoured the idea of a merger.

Lex, Page 16

Risk provisions squeeze HypoVereinsbank

By Uta Harnischfeger in Frankfurt

Bayerische Hypo-Vereinsbank, Germany's second largest commercial bank, yesterday reflected weakness in the sector when it said that operating profit fell 14.2 per cent in 1998.

The drop from DM2.9bn (€1.48bn, $1.64bn) in 1997 to DM2.5bn was due mainly to higher-than-expected risk provisions for credit exposure in emerging markets, disappointingly low provision income and no signs yet of synergy effects from the merger that created the bank last year.

Albrecht Schmidt, chairman, pledged the bank would refrain from local credit business in emerging markets outside Europe and from lending money to property developers.

In October, HypoVereinsbank surprised investors with third-quarter results that included risk provisions of DM3.5bn to cover overvalued property projects, mainly in formerly communist eastern Germany. That fuelled a public feud between the new bank's chairman, Mr Schmidt – formerly chairman of Vereinsbank – and his former counterpart at Hypo-Bank, Eberhard Martini. The two banks completed their merger last autumn.

HypoVereinsbank shares yesterday fell 6.4 per cent to €48.50. "The 1998 results are now confirming the stock's extremely sluggish performance since the beginning of the year," said Georg Kanders, analyst at WestLB in Düsseldorf.

Yesterday was the first time the bank reported according to IAS, or international accounting standards, which had made it harder for analysts to estimate the 1998 results.

Pre-tax profit rose to DM5.1bn from DM2.8bn in 1997 and net profit rose to DM3.8bn from DM1.8bn in 1997. There was a book gain from the merger, after the bank sold Hypo-Bank shares in return for Allianz shares as part of the deal. Without the extraordinary gain, both profits would have been flat.

Analysts were particularly disappointed that the bank's administration costs rose to DM8.5bn from DM7.7bn in 1997. Although the merged group has closed about 100 branches, staff numbers have risen by more than 1,300.

In addition, the bank took DM3.2bn in risk provisions, about DM400m above analysts' estimates. Mr Schmidt said the bank was "very unhappy" with some of its credit exposures.

In the light of the DM3.5bn in extraordinary risk provisions for bad property loans already announced in October, the chairman said the bank would restrict its property business.

INVESTMENT BANKING FRENCH BANK TO BRING UK SUBSIDIARY INTO HEART OF WORLDWIDE ACTIVITIES AFTER STRONG RESULTS

CCF to extend Charterhouse brand

David Parish: opposite way to competitors David Ahmed

By Clay Harris, Banking Correspondent

CCF Charterhouse, the UK investment banking subsidiary of Crédit Commercial de France, will today give a signal it has found a permanent home after five changes in ownership in 20 years.

CCF, which took 100 per cent control of Charterhouse 12 months ago after five years of joint ownership with Germany's BHF-Bank, is making CCF Charterhouse its worldwide name for investment banking.

In spite of the takeover speculation surrounding CCF, Charterhouse has a new-found confidence after repeated upheavals.

The confidence has been fuelled by its results in 1998, when CCF Charterhouse achieved pre-tax profits of £83m ($135m) from continuing businesses, a 57 per cent return on equity.

The return on equity was boosted by 12 percentage points by the mid-year transfer of Charterhouse's banking business to CCF, a change that will be formally announced today as part of an internal restructuring.

Charterhouse Tilney Securities, its corporate stockbroking arm, will drop "Tilney", ending any remaining confusion with Tilney & Co, the private client broker sold to management in 1993.

The French stockbroker, CCF Elysée Bourse, has already been renamed CCF Securities.

The group will also announce the creation of Charterhouse Specialist Investments, grouping its advisory and investment activities in property and private finance initiative projects.

David Parish, who joined Charterhouse in 1980 and became chairman and chief executive last year, said yesterday: "We're going the opposite direction of all our competitors. We're making ourselves as small as possible in terms of headcount and capital."

His group had agreed a three-year business plan with CCF. Mr Parish said: "We talk directly to Charles-Henri Filippi [CCF president]. He understands the business, he's a very entrepreneurial guy and he can get things done."

CCF Charterhouse is focusing its mergers and acquisitions business on two sectors, chemicals/health-care and retail/wholesale, run respectively by Jean-Louis Pacquement and Patrick Cazalas.

Its advisory role in the merger of France's Castorama Dubois and the B&Q home improvements subsidiary of Kingfisher of the UK was the largest M&A mandate in Charterhouse's 69-year history. "When you do a £4.5bn deal, how niche is niche?" Mr Parish said.

The group continues to benefit from profits achieved by Charterhouse Development Capital, one of the UK's oldest private equity businesses.

NORDIC BANKS MERGED GROUP SEES COST SYNERGIES

Profits rise by 13% at MeritaNordbanken

By Tim Burt in Stockholm

MeritaNordbanken, the Nordic region's largest lender, yesterday reported a 13 per cent increase in underlying profits as flat interest income was offset by reduced loan losses and profits from one-off disposals.

The bank, formed by the 1997 merger of Finland's Merita and Nordbanken of Sweden, said operating profits rose from FM7.24bn (€1.21bn, $1.38bn) to FM8.15bn last year, even though net interest income fell 2 per cent to FM10.6bn from FM11bn.

Hans Dalborg, chief executive, said the maiden full-year figures following the merger showed the group was beginning to realise cost and income synergies, which are projected to reach FM700m a year. "The estimated restructuring costs of FM590m will not be exceeded," he said.

The figures, however, were flattered by a capital gain of more than FM3bn from the disposal of non-core shareholdings in Finnish groups including Sampo Insurance and Nokia. That helped lift results from financial operations to FM2.64bn, up from FM1.92bn last time. Loan losses tumbled 43 per cent from FM1.45bn to FM824m following a reduction in the bank's Asian exposure.

At the pre-tax level, however, profits fell 34 per cent from FM6.35bn to FM4.18bn after the bank made a FM3.67bn write-down on real estate holdings inherited from Merita. The write-downs held the bank's return on equity at 14.3 per cent.

That contrasted with a return on equity of 18.6 per cent reported yesterday by Svenska Handelsbanken, one of MeritaNordbanken's main rivals.

Handelsbanken, also reporting full year figures, said it remained one of Sweden's most profitable banks although its heavy dependence on retail customers meant it was more exposed to falling interest rates. Profits from branch office operations – in which each branch is treated as its own profit centre – rose from SKr5.81bn ($720m) to SKr6.03bn as net interest income rose modestly from SKr8.89bn to SKr9.48bn.

After accounting for rising information technology costs and SKr319m of loan losses, the overall operating profit was flat at SKr7.71bn, against SKr7.82bn last time, while net interest income was virtually unchanged at SKr11.2bn.

While MeritaNordbanken has a larger exposure to asset management and securities, Handelsbanken is more dependent on mortgage and retail banking loans. Its volume of home loans rose 4 per cent last year.

Arne Martensson, Handelsbanken chief executive, said growth and rising income justified lifting the dividend from Skr6.50 to SKr8 per share. He also announced plans to increase the nominal value of each share from SKr10 to SKr12 ahead of a three-for-one share split.

Kvaerner unveils tough restructuring plans

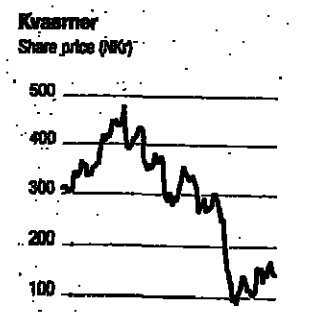
By Valeria Sköld in Oslo

Kvaerner, the troubled Anglo-Norwegian engineering and shipbuilding company, yesterday unveiled plans for a wide-ranging restructuring designed to restore profits after reporting a pre-tax loss of NKr1.35bn (US$171m) last year.

The plans, to be announced formally next month, are aimed at returning Kvaerner to "acceptable operating performance" within two years. The company will cut overhead costs by NKr500-NKr800m annually and reconsider the future of units that cannot stem their losses.

The move follows the appointment last year of Kjell Almskog as Kvaerner's new chief executive. Mr Almskog replaced Erik Tonseth, who was ousted last October after failing to improve profitability and reduce the company's net debt following the 1996 acquisition of Trafalgar House, the UK conglomerate.

Redundancies are expected to affect all areas of the group – comprising 18,000 staff worldwide – including the 700 people at its Govan yard in Scotland, which was yesterday shortlisted to bid for a £200m ($324m) UK government order.



Kvaerner will also continue to dispose of non-core assets this year in order to reduce its NKr10.8bn in net interest bearing debt.

Mr Almskog expects to sell the company's metals equipment unit, with annual turnover of NKr4bn, for a profit by the second quarter to either Voest-Alpine Technologie (VA Tech), the Austrian engineering group, or an Italian company.

The company also plans to dispose of the Kvaerner Energys hydro-turbine power business, among 15 different parts of Kvaerner up for sale.

Yesterday, however, Kvaerner warned yesterday that 1999 results would still not be satisfactory, despite an expected considerable improvement from principal operations, due to the global economic climate, lack of growth in Asia in the short-term, low oil prices and uncertainty related to certain projects such as the Aasgard and Jotun oil and gas projects.

The warning came as Kvaerner reported a NKr1.35bn pre-tax loss for 1998, from a profit of NKr1.51bn in 1997, despite a 13 per cent rise in revenue to NKr83.2bn and a 23 per cent reduction in the net debt during the fourth quarter. The results reflected NKr2.27bn in financial items, mostly from NKr1bn in losses and writedowns on investments.

RETAILING HOME IMPROVERS SPARK RISE

Baby-boomer spending lifts Home Depot

By Andrew Edgecliffe-Johnson in New York

The continuing strength of US retailers was confirmed yesterday by news of a 36 per cent jump in fourth-quarter earnings from Home Depot, the world's largest home improvement retailer.

The group, along with smaller building suppliers such as Lowe's and Home-Base, has benefited from an ageing population of baby boomers who are spending more on their homes than ever before.

Wayne Hood, retail analyst with Prudential Securities, added that retailers were enjoying a positive macro-economic background because of growth in real disposable income and low unemployment.

Home Depot's earnings for the period of $418m, or 27 cents a share, contributed to a 39 per cent rise in full-year earnings to $1.61bn, or $1.06. Arthur Blank, president and chief executive, described the year as "outstanding".

Comparable store sales rose 9 per cent in the quarter, and by 7 per cent for the full year, and analysts were encouraged by its improved inventory turnover. Mr Hood said results to date had confirmed that the strong sales seen since the last two weeks of December had continued into February.

The Limited, which operates stores including Lane Bryant and Henri Bendel, announced comparable store sales growth of 6 per cent for both the fourth quarter and the full year.

The group, which also owns 85 per cent of Intimate Brands, the lingerie and soap group, reported net income of $250m for the quarter, up from $85m largely because of a one-off gain from splitting off Abercrombie & Fitch, the clothing retailer.

Adjusting for Abercrombie & Fitch, quarterly earnings were up 11 per cent at $1.07 per share, and full year earnings rose by the same proportion to $1.46.

● Barnes & Noble, the world's largest bookseller, suffered a 12 per cent fall in its stock price yesterday after it warned that its consolidated earnings for 1998 would not match Wall Street estimates. It predicted a 27 per cent increase in retail earnings to $1.35 per share, a 59 cent per share loss from barnesandnoble.com, and a 53 cent gain from the investment made by Bertelsmann in the online operation.

Leonard Riggio, chairman and chief executive, said however that the internet business was "strongly accretive" and was expanding its customer base and market share.

NEWS DIGEST

BRAZIL

Banco Itaú earnings advance 22% for year

A strong performance last year by Banco Itaú, Brazil's second largest private sector bank by assets, leaves it well positioned to continue its expansion strategy in 1999. The bank, which reported consolidated net income up 22 per cent to R$880m (US$450m) is one of the front runners to acquire Banespa, the former São Paulo state bank, which is due to be sold later this year.

Banespa, now controlled by the federal government, has an extensive branch network in the country's wealthiest region and had R$24.47bn in assets in June. Acquisition of Banespa would catapult Itaú ahead of its rival Bradesco, the country's largest private sector bank, which is also expected to bid for the bank.

Itaú said its total consolidated assets grew 5.7 per cent to R$49bn, of which about a third consisted of loans. Brazil's big banks cut lending and instead increased holdings of government securities as volatility increased last year, especially after Russia's default in August jolted confidence in emerging markets around the world.

The bank claims that with its market capitalisation of R$6.79bn it is the largest in Latin America, even though its asset base is three-quarters the size of Bradesco's. **John Barham, São Paulo**

VEHICLE ENGINES

Navistar silent on Volvo

Navistar, the Chicago-based truck and engine manufacturer which Volvo has considered acquiring, yesterday stayed silent about the state of any discussions with the Swedish group, as it faced shareholders at its annual meeting. But John Horne, Navistar chairman, took refuge in the company's standard reply, which it has relied on for several weeks in spite of a rapidly climbing share price – saying that Navistar did not comment on "rumour and speculation".

Mr Horne spent much of the meeting trying to impress on shareholders the extent to which Navistar believed that a previous troubled history was now behind the company. After a series of better-than-expected earnings figures, he said Navistar was aiming for a further 17 per cent improvement in its return on equity in the current year, adding: "This is a company which will not be swayed by the cycles as we used to be." However, asked afterwards when Navistar shareholders might see a $40 share price if the Volvo foray did not lead to a deal, Mr Horne said: "People ask me that all the time." **Nikki Tait, Chicago**

STEEL

GM chooses suppliers

More than six integrated steel companies in North America will share in new long-term supply agreements with General Motors, the car and truck maker said yesterday. However, it also said it introduced one mini-mill producer into the buying arrangements – although it stressed that, in general, the integrated producers were better placed to meet the volume requirements.

Worldwide, the new agreements involve more than 40 steelmakers and account for 18m metric tons of steel, worth about $11.7bn, spread over four years. GM said these arrangements, together with existing multi-year contracts, should provide more than 90 per cent of its steel requirements through to 2002.

The company declined to say what kind of cost savings would flow from the new steel purchasing arrangements. It is still discussing the possible extension of some of the contracts for even longer terms – up to 10 years in some cases. **Nikki Tait**

SOFT DRINKS

Coca-Cola in Peruvian buy

Coca-Cola has agreed to buy 50 per cent of Inca Kola Peru, ending a long-standing David and Goliath struggle between the leading firms in the nation's soft-drinks industry. Coca-Cola, the world's biggest soft drinks company, will also buy a stake of about 20 per cent in JR Lindley, the Peruvian owner of Inca Kola, whose bright yellow soda has stubbornly held on to a higher market share than Coke. **Reuters, Lima**

Financial giants caught out by net

The surge in internet share trading surprised Wall Street's big hitters, writes **Tracy Corrigan**

When consumers got hooked on the internet last year, powerful financial institutions such as Merrill Lynch and Paine Webber were caught napping and were forced to confront the surge in internet share trading by retail investors.

According to the Securities and Exchange Commission, a quarter of US retail share trading is now on the internet. Charles Schwab, the largest US discount broker, conducts two-thirds of its trading through online accounts, and the number of internet accounts has doubled in the last year to 7.8m, says internet research firm Gomez Advisors.

Many internet investors are not the traditional clients of US retail brokerages such as Merrill and Paine Webber: they are poorer and younger. And they are buying, as these brokerages never tire of explaining, trading execution, not investment advice.

Nonetheless, traditional retail brokerages, which employ thousands of retail brokers or account executives, face a strategic dilemma as the internet transforms the retail investment market. If they offer discount internet trading, they could cannibalise their own business, or shift their brand downmarket. If they do not, they could lose clients – or fail to attract today's internet investors as they grow older and wealthier.

"Online firms gained a huge competitive advantage by introducing internet trading," says Henry McVey, a Morgan Stanley analyst. He believes that the full-service brokerage industry will be forced to enter a period of "creative destruction" – embracing the internet, even though it will mean reduced fees, in order to leverage their brand and their ability to provide advice and accumulate assets.

Still, the brokers have reason to be fearful. "Merrill Lynch has [many] unruly soldiers who have spent their lives training to fight," argues one investment banker. Now, "the game will be decided not by infantry but by choosing smart weapons".

For financial institutions that do not have a retail brokerage business, the internet may offer a second chance to get into the retail market. Goldman Sachs, which has insisted it would not merge with a traditional brokerage, is looking at its internet options. However, people close to the firm say executives believe internet trading firms are overvalued, and it is likely to develop any business organically, or through a joint venture.

Donaldson Lufkin & Jenrette, which like Goldman has a high net worth private client business but no retail network, has already done so through DLJdirect.

Most big brokerages are planning to offer existing clients internet trading as part of a package which includes advice, rather than a separate, cheap internet trading service.

Morgan Stanley Dean Witter, which owns online discount broker Discover Brokerage Direct, is doing both. But Salomon Smith Barney – a unit of Citigroup, in theory the ultimate financial supermarket – has no immediate plans to offer internet trading, though its website, like others, offers other services.

"Clients' access to information is exploding," says Steve Clifford, senior vice president and director of internet marketing at the firm. He declined to discuss the firm's internet strategy, but said: "Online trading is not among the top things [clients] are requesting." Instead, they are asking for features such as real-time stock quotes, he says.

Sallie Krawcheck, a Sanford C Bernstein analyst, believes that there is strong resistance among brokerages to unbundling their services, making high trading commissions more obvious, and thus increasing downward pricing pressure.

But Launny Steffens, vice-chairman of Merrill Lynch, argues that direct comparison between discount trading on the internet and a full-service brokerage "makes the assumption that the two services are equal".

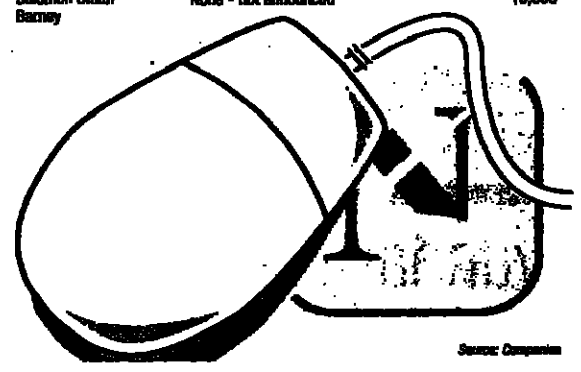
Merrill Lynch Online will, he says, "provide e-commerce and e-banking and e-advice and e-trading", and he believes that the internet will also offer opportunities to expand Merrill's retail business overseas. Merrill has other advantages. While internet trading firms boast high volume, it is still, says Mr McVey, "the high end that generates the lion's share of the profits".

The likes of Merrill and Morgan Stanley are well-positioned to form part of a new elite of US retail investment firms, as distinctions blur between online and telephone trading – and even discount trading and full service firms.

Mr McVey says: "It is still too early to pick individual firms, but the winner's business model is clear: an asset accumulator that provides advice and can leverage technology, the internet in particular, to build deeper relationships with customers."

The online revolution on Wall Street

Company	No of internet trading accounts - future plans	No of retail brokers *(excludes private client business for high net worth individuals)
Donaldson Lufkin & Jenrette	529,000 (DLJdirect)	None
Goldman Sachs	None - has set up committee to review options	None
Merrill Lynch	None - will offer to 55,000 existing brokerage accounts by March 15	14,000
Morgan Stanley Dean Witter	115,000 (Discover Brokerage Direct) - testing trading for existing brokerage accounts	11,400
Paine Webber	None - will offer to some existing brokerage accounts by end of 2nd quarter	8,951
Salomon Smith Barney	None - not announced	10,800



Source: Companies

AUTOMOTIVE PARTS EUROPE'S BIGGEST GROUP CONTINUES ASIAN EXPANSION WITH JAPANESE DEAL

Bosch takes control of Zexel

By Paul Abrahams and Alexandra Harney in Tokyo and Haig Simonian in London

Robert Bosch, Europe's biggest automotive parts maker, yesterday continued its expansion among stricken Asian suppliers with agreement to buy majority control of Zexel, a Japanese components company with sales of Y230bn ($1.91bn).

Bosch, which already owned 31.75 per cent of Zexel, will spend Y20.16bn on 90m new shares, priced at Y224 each, taking its holding to 50.04 per cent.

The deal, which is subject to approval by competition authorities, should be completed in April. Merrill Lynch were advisers to Bosch.

The price compares with last night's close of Y217, down Y18 or 7.6 per cent on the day. The deal, including the newly issued shares, values heavily indebted Zexel at Y75.2bn or $625m.

The move marks the latest step in the consolidation of Japan's troubled components industry.

It also underlines the increasing ability of foreign manufacturers to take over Japanese counterparts at a time of growing difficulties for the country's motor industry.

Zexel yesterday warned it would post a consolidated net loss of Y9bn this year on sales of Y230bn. Brokers Morgan Stanley Dean Witter estimate that at the end of the last financial year the group had gearing of 86 per cent, one of the highest ratios among Japan's components makers. Last September, Zexel had borrowings and liabilities of 147bn.

The deal marks the latest acquisition by Bosch of associated companies in Asia. In recent months, the privately owned German group has used the regional economic crisis to take control of three Korean joint ventures for undisclosed sums.

Nissan, Japan's second largest automotive company and part of the troubled Fuyo *keiretsu*, owns 11.1 per cent of Zexel. In recent months the carmaker, struggling under debts of at least Y2,500bn, has sold stakes in other component suppliers, including Nissan Texsys, Unisia JECS, Ikeda Bussan and Kinugawa Rubber Industries, to repay borrowings and rationalise purchasing.

Zexel, Japan's largest manufacturer of fuel injection pumps for diesel engines, has been struggling to cope with collapsing domestic demand.

Overall vehicle sales fell 12.6 per cent last year, while domestic truck sales plunged 20.1 per cent to their lowest level since 1977. Only 25 per cent of Zexel's sales are overseas.

The group had a long standing relationship with Bosch, a leader in fuel injection systems, with two Bosch representatives on its board. Zexel was supplying Bosch with a diesel engine fuel-injection pump and jointly developing a direct injection gasoline system.

Hyundai makes hay while sun refuses to shine on Korea

The conglomerate continues to expand while others shrink, writes **John Burton**

South Korea's bad times have been good for Hyundai. While other big conglomerates, or *chaebol*, are forced to shrink their sprawling industrial empires during the nation's worst recession in 45 years, Hyundai keeps expanding.

Acquisitions over the past year have strengthened Hyundai's position as Korea's top *chaebol*, including the nation's biggest carmaker and shipbuilder – and soon the world's second largest producer of memory chips after the takeover of rival LG Semicon.

But officials warn Hyundai's growth may prove reckless if it assumes more debt to finance its spending spree. "Today's winner could become tommorow's loser," said Kang Bong-kyun, the president's economic adviser, about Hyundai's apparent supremacy.

Assets recently acquired by Hyundai equal the size of SK Group, Korea's fifth biggest *chaebol*. Besides Kia and LG Semicon, Hyundai has bought the oil-refining business of Hanhwa Energy and invested in commercial banks and fund-management firms. It is also to set up a life insurance company.

Hyundai's growth appears to contradict the government's policy of curbing the power of the *chaebol*. Many Koreans believe Kim Dae-jung, the nation's reformist leader, has not objected to Hyundai's expansion because of the group's support for his controversial "sunshine" policy of economic co-operation with North Korea.

Chung Ju-yung, the Hyundai founder born in North Korea, has announced big investments in the communist state. He has secured exclusive tourism rights to the Diamond Mountains for nearly $1bn and plans to spend another $1bn on facilities. Other plans include building factories.

Despite its recent rapid growth, Hyundai says it cut its debt/equity ratio from 508 per cent, the highest among the top five *chaebol*, to 323 per cent in the past year.

Park Se-yong, head of Hyundai's corporate restructuring committee, says this proves the group is not in danger of straining its finances and will be able to meet a government target of 200 per cent debt/equity by the end of 1999.

Some analysts are sceptical about the shrinking debt. "Hyundai is a black box when it comes to financial transparency," says Stephen Marvin, research head at Jardine Fleming in Seoul.

Hyundai says it raised $5bn in overseas capital last year through the sale of assets, including a US chip subsidiary, and investments by foreigners in several Hyundai affiliates, including Hyundai Oil Refining.

It expects to raise $4.5bn this year through asset disposals and selling stakes in units including the car and semiconductor businesses to overseas investors.

Chung Ju-yung: he has announced big investments in his native North Korea Reuters

Yesterday, Hyundai Motor revealed it had reversed into net loss of Won 33.2bn (US$28m) in 1998, from a Won 46.5bn net profit the year before, mainly because of sluggish domestic car sales but also because of industrial action against restructuring.

The $9.5bn raised through disposals would nearly cover the cost of buying LG Semicon, Kia and the others. Hyundai can gain savings by halving the number of subsidiaries to 30, including merging its petrochemical, aerospace and rolling stock units with those from rivals.

But other methods of reducing debt appear more doubtful. Hyundai has resorted to re-evaluating assets and spinning off businesses to improve its balance sheet. It also plans to raise Won 5,600bn in equity issues this year, although this depends on the Seoul stock market remaining buoyant when other *chaebol* are planning the same.

Moreover, Hyundai will need several billion dollars in working capital to stay competitive in the memory chip business while completing the consolidation of its car operations.

Although Hyundai's shake-up has been approved by Korea Exchange Bank, its main creditor, worries about its finances recently led Korea Investors Service, a domestic credit rating agency, to downgrade six big Hyundai companies.

Hyundai's expansion appears to be driven more by dynastic politics among the family owners than business logic. The frail 83-year-old Hyundai founder has already divided the group among his six sons, who will each control an industry; cars, construction, electronics, shipbuilding, financial services and property development.

Now his heirs are taking advantage of the upheaval caused by Korea's financial crisis to strengthen their corporate fiefdoms by buying companies from other troubled *chaebol*.

The latest round has supported the ambitions of the group's co-chairmen, Chung Mong-koo, the eldest son, and his brother, Chung Mong-hun, in particular.

Mong-koo, an old-school industrialist in the mould of his father, was once relegated to managing marginal Hyundai businesses such as steel. But he recently won control of the car business, a prized asset, after he engineered the takeover of bankrupt Kia Motors and then ousted his cousin as Hyundai Motor chairman.

Mong-hun, whose knowledge of Western management practices has gained him co-leadership of the group, hopes to save his troubled Hyundai Electronics by acquiring LG Semicon, which will enable him to challenge Korea's Samsung Electronics for global leadership in memory chips.

Another key figure is Chung Mong-joon, head of the profitable Hyundai shipbuilding unit and a politician with presidential aspirations. He has helped finance his brothers' business expansion despite possible risks to his company. If he does make a bid for the presidency, it would support critics' claims that Korea is becoming the "Republic of Hyundai".

BTM to boost UK securities business

By Gillian Tett in Tokyo

The Bank of Tokyo Mitsubishi, Japan's largest bank, yesterday announced it would boost the capital of its UK securities business, Tokyo-Mitsubishi International, by £185m to £335m ($544m).

The bank also announced that it would reorganise its European investment banking business along product lines, rather than country lines, thus strengthening the role of London.

The injection will still leave BTM's UK investment banking operations relatively small compared with western banks. The group employs 370, although BTM said this could be raised as the business expanded.

Conversely, most Japanese banks are seeking to scale back their European operations. This highlights the degree to which the bank is scrambling to strengthen its securities business, after being wrongfooted by last year's deal between Nikko Securities, the Japanese broker, and the US Travelers group.

The Nikko-Travelers deal delivered a painful blow to BTM, because it had been assumed that BTM would form a close alliance with Nikko to develop a securities business.

BTM yesterday said that the planned capital increase in London was designed to prepare for its entry into equity businesses in the second half of 1999, when restrictions on this are lifted as part of Japan's Big Bang deregulation.

The increase should also allow the bank to "enlarge its underwriting capacity in eurobond, credit derivatives and securitisation", BTM said, adding that it planned similar changes in the US and Asia.

Meanwhile, an increase in bad loan write-offs, from Y17bn to Y105bn ($881m), forced BTM's subsidiary, Nippon Trust Bank, to reverse its earnings forecast. It is predicting a loss of Y84.5bn for the year to March 31, instead of a Y500m parent net profit.

Mitsubishi Trust & Banking Corp, part of the Mitsubishi *keiretsu*, also said yesterday it would increase the amount of problem loans it writes off this fiscal year ending in March, from Y330bn to Y510bn.

As a result, the trust bank revised its earnings forecast for the fiscal year to show an estimated Y190bn net loss, compared with an originally forecast Y5bn deficit.

NEWS DIGEST

AIRLINES

JAL in joint venture with Japan Air Systems

Japan Airlines will announce a joint venture with Japan Air Systems, the country's third largest carrier, today to link computer reservation systems in the largest collaboration between the two airlines.

The new company, expected to begin operations in October 2001, will allow the carriers to save an estimated Y12.5bn ($103m) over the next eight years by linking JAS to JAL's computer network. It could also pave the way for further alliances, and possibly a capital tie-up in the future, industry sources said. JAL, Japan's leading airline, will own 50 per cent and JAS 50 per cent in the joint venture. The company will become a JAL subsidiary.

Japan's three traditional carriers have been lowering their cost base to improve profitability amid new competition from Skymark and Air Do, low-cost airlines that began operations in 1998 – the first new entrants to the industry in over 30 years.

Further tie-ups between JAL and JAS could pose a serious threat to All Nippon Airways, which controls 51 per cent of domestic flights. A merger between JAL and JAS would give the two companies a 49 per cent market share in Japan. **Alexandra Harney, Tokyo**

Korean buoyed by plane sales

South Korea's largest airline Korean Air Lines said yesterday it returned to the black with a net profit of Won 296.6bn ($246m) last year, from a net loss of Won 397.5bn in 1997. The company said the improved earnings could be mainly attributed to sales of planes to foreign companies and the drop in fuel prices.

Sales rose 7 per cent to Won 4,590bn despite the sluggish domestic economy. "Although the number of people traveling overseas declined, the number of foreigners who visited the country increased because of a week local currency versus the dollar," said Korean Air Lines.
AP-DJ, Seoul

EVA Air planning pays off

Taiwan's EVA Air said yesterday it made a net profit of T$75.39m (US$2.32m) in 1998, down from T$902m in 1997 but slightly better than the T$62.59m the airline forecast in January. EVA, a unit of shipping giant Evergreen Marine, said changes of strategy helped it to resist the effects of Asia's economic crisis and recover from a net loss in the first half of last year. It said revenues rose 11 per cent in 1998 to T$42.93bn and forecast a further rise to T$48.3bn in 1999, with net profits expected to reach T$480m. **Mure Dickie, Taipei**

JAPANESE ELECTRONICS

Matsushita profits fall 49%

Matsushita, the Japanese electronics group, yesterday cut its earnings forecast for this year after a disappointing third-quarter performance that saw pre-tax profits tumble 49 per cent to Y49.4bn ($410m).

The group, which makes the Panasonic, Quasar, and Technics brands, said a collapse in prices and slower than expected sales, particularly in Japan, Asia and Russia, were to blame. Sales fell 7 per cent to Y1,938bn and net profits plunged 48 per cent to Y20.3bn in the third quarter.

In the full year, Matsushita said earnings before taxes and exceptionals would be Y167bn, a 53 per cent decline from last year, on turnover down 5 per cent to Y7,500bn. However, the group revised its net profits forecast up to Y54bn, compared with Y93.6bn last year.

Earlier, the group had said it expected pre-tax profits of Y180bn on turnover of Y7,830bn in the year ending this March.

Matsushita said its net profit forecast was also based on the assumption that the Japanese government would not revise tax policy to allow a one-off re-evaluation in March of net deferred tax assets according to US accounting principles. If such changes were passed in parliament, net profits would drop an additional Y50bn, it said.

Overseas sales fell 10 per cent, with declines of 5 per cent in the US and South America, 7.4 per cent in Europe, and 11 per cent in Asia. Domestic sales fell 4 per cent to Y976.9bn. **Alexandra Harney, Tokyo**

Semiconductor losses weigh on Komatsu

By Alexandra Harney

Komatsu's announcement this week that its forecast for profits is to be cut for the third time in six months, has fuelled speculation about the company's strategy amid growing losses in its semiconductor division.

Since the Japanese machinery maker warned that net losses would balloon to Y13bn ($108m) on sales of Y1,060bn this year, its shares have edged up nearly 3 per cent on hopes that the worse-than-expected results would trigger a fundamental restructuring.

But in an interview with the Financial Times, Satoru Anzaki, Komatsu president, declined to comment on whether he was considering selling the semiconductor business. He is believed to regard resolving the problems in the semiconductor division as his final project before stepping down as president.

Yesterday, Moody's, the US credit-rating agency, lowered its outlook on the group's long-term debt rating from "stable" to "negative", because of concern that losses at the company's electronics arm were being compounded by declining demand for construction equipment in Japan.

Analysts argue that Komatsu finds itself in an increasingly difficult position. The group's silicon wafer operations are expected to go into the red this year for the first time since 1994. Although the group has moved to merge two of the companies and streamline production processes, analysts said it might be forced to extend loans to rehabilitate these companies.

These loans could be as large as tens of billions of dollars, according to Jeremy Kloiser-Jones, analyst at Salomon Smith Barney in Tokyo.

While Mr Anzaki refused to discuss the timing of his resignation, he said the biggest problem in the silicon wafer business was the collapse in prices, which did not warrant a withdrawal from the industry.

Losses from the semiconductor business had shrunk since last November, and prices could recover as early as this April, he said. Komatsu makes four types of silicon wafers used in semiconductors and memory devices, as well as liquid crystal display equipment.

"We are not yet a top-ranked manufacturer in those areas, but we believe we have a product that will differentiate itself in the future," Mr Anzaki said. "We will try to increase that differentiation through research and development and make a decision about the business by 2001 or 2002."

But Mr Anzaki's approach contrasts sharply with that of others – including Nippon Steel and Kobe – that have left the semiconductor business recently.

Meanwhile, there is little hope for a recovery in construction demand in Japan and Asia, which together accounted for 64.8 per cent of sales last year. Komatsu has been restructuring its construction equipment business for the past six years.

AIRLINES

JAL in joint venture with Japan Air Systems

Korean buoyed by plane sales

EVA Air planning pays off

JAPANESE ELECTRONICS

Matsushita profits fall 49%

Semiconductor losses weigh on Komatsu

The chairman who loves surprises

John Willman asks what may be in store for Unilever now that it has strengthened its balance sheet following its $8bn pay-out to its shareholders, one of the largest ever

Life at Unilever has become much more exciting since Niall Fitzgerald became chairman of the UK wing of the Anglo-Dutch consumer giant two-and-a-half years ago.

Two years ago he sold Unilever's speciality chemicals business to ICI for £4.9bn ($8bn) – one of a series of disposals.

That has included the Plant Breeding Institute near Cambridge, a German fish restaurant chain and franchises for Caterpillar earth-moving equipment.

At the same time, the group has scooped up a variety of businesses that fill gaps in the global network for its 14 core product categories. These have included ice-cream operations in Brazil, China and Argentina.

A group noted in the past for its sluggishness in product innovation has meanwhile pulled off several successful launches.

The most notable has been that of solid detergent tablets, putting arch-rival Procter & Gamble on the defensive in several European markets and reversing Unilever's long-term decline in market share there.

Yesterday Mr Fitzgerald pulled off his biggest surprise, announcing the largest one-off pay-out to shareholders in history.

Unilever is to return £5bn in a special dividend that still leaves the group with a stronger balance sheet than before the sale of the speciality chemicals business.

"It exceeded the market's expectations," said David Lang, food analyst at Henderson Crosthwaite, the broker.

Many observers were expecting Unilever to announce acquisitions, rather than pay its cash pile back to shareholders.

The suggested targets included Reckitt & Colman, the household products group, and Heinz, the canned-food manufacturer.

Mr Fitzgerald said yesterday that Unilever had looked at many potential acquisitions, but none had passed its criteria as value-enhancing. However, the pay-out did not rule out acquisitions, he said, was

The cash distribution is the strongest evidence so far of the new regime's commitment to shareholder value, analysts said.

Unilever has set itself the target of being in the top third of a peer group of 21 international consumer companies, including Coca-Cola and ColgatePalmolive.

Yesterday, Mr Fitzgerald was able to announce the achievement of this aim within a year of it being set, having lifted itself three places in the league table.

"The requirement to be in the top third of the peer group stopped them splashing out on a value-destroying deal – which is no bad thing," said Tim Potter of Merrill Lynch, the broker.

That focus on shareholder return has led to an impressive increase in operating margins, up from 8.1 per cent for the group as a whole three years ago to 10.7 per cent.

Four of the five regions now have double-digit margins and Asia-Pacific is only just below the threshold at 9.4 per cent.

The stream of launches – which includes Thermasilk shampoos in North America, Winner Taco wrapped ice cream and the Calvin Klein range of fragrances – has helped raise margins.

The executives who run the various businesses are on annual contracts to deliver their targets.

"The thing that changed almost instantaneously [after Mr Fitzgerald became chairman] is delivery," said Henderson Crosthwaite's Mr Lang.

So what next for Mr Fitzgerald, still only a quarter of the way through his period as chairman? Yesterday, he said the task was to get some growth after the restructuring of the past few years.

"The job was to make the business much more profitable and focused and thus release the resources to generate growth. The focus now is on growing the top line if marketing conditions allow.

"There are more margin improvements to come – but not at the same rate," he added. "Every additional point of growth with our margins is extremely profitable."

But it is hard to believe that incremental growth of that kind will contain his ambitions. One question is whether he will retain the 14 existing core product categories.

Mr Lang believes he is more likely to add than to subtract – particularly if a new category helped in completing the global distribution network.

Mr Potter of Merrill Lynch suspects he may further shrink the range of the company.

"In another year, I wouldn't be surprised if he took another look at the structure and decided to improve returns to shareholders with a reduction in categories," he said.

Whatever the outcome, it is almost certainly going to be unpredictable.

"He loves to surprise us," says Mr Potter. "He has turned over £10bn in the last two years, and expectations are high.

NXT sees future in transparent speaker

By David Blackwell

NXT, which has developed a revolutionary flat loudspeaker technology, yesterday took the concept a stage further by announcing a totally transparent speaker fitted across the screen of a laptop computer.

Farad Azima, chairman, who has consistently expressed caution about the prospects of the new technology, said the transparent speaker demonstrated the qualitative difference between NXT technology and all other flat panel speakers. "I have been very careful in the past so that we did not end up with egg on our face – but there is just nothing like this."

The group described the creation of a transparent speaker as a fundamental breakthrough. It gives off a stereophonic effect, and can be used on televisions, mobile phones and computers. Institutional investors and analysts yesterday crowded round a laptop at the Grocers Hall in the City almost in disbelief as music played direct from a screen still displaying computer graphics. "It is mind blowing technology," said one.

The group also announced 24 new licensees for the original technology, including Alpine Electronics Research of America, the California offshoot of Japanese electronics group Alpine, and Robert Bosch and Grundig of Germany. Royalties from existing licences rose to £100,000 ($163,000) in the first half, from £85,000 for the whole of the previous year.

However, the strength of the pound and the loss of £1m of turnover in east Asia pushed the Mission conventional loudspeaker division more than £1.2m into the red in the six months to December 31. That took total losses for the half up from £2.62m to £4.73m on sales of £8.4m.

Forecasts for the full-year loss have been raised about £1m to £8m or more. In addition the expected cross-over point when royalties from NXT overtake expenditure has been put back to 2001.

However, analysts said owning a conventional speaker plant used to test the developing speakers against conventional technology would be invaluable.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Dividends Corresponding dividend	Total for year	Total last year
Access Plus ✦	Yr to Dec 31	19.7	(16.2)	3.15	(2.4)	12.87†	(10.38)	3.9	May 10	3.1	5.85	4.65
Admiral	Yr to Dec 31	147.2	(117.2)	23.5	(17.5)	25.2	(17.8)	2.4	May 7	2	3.5	2.9
Assoc Brit Ports	Yr to Dec 31	370.4	(317.8)	110.8¶	(66)	22.4	(19.8)	5.75	Apr 30	5	10.25	9
Beazer Group	6 mths to Dec 31	275.7	(265.8)	26.6	(31.4)	8.71	(8)	2.5	Apr 30	2.3	-	7.3
BI	Yr to Dec 31 ✦	4,474	(5,351)	1,227¶	(1,233¶)	29.45	(7.1L)	4.3	Jun 9	4	8.6	8
Capital & Reg'nal	Yr to Dec 25	52.7	(33.2)	11.5	(11.1)	12.1†	(15.4)	2.75	Apr 29	2.5	4.25	3.5
Channel Holdings	6 mths to Oct 31	34.3	(30.1)	1.33L	(1.77)	1.1L	(1.3)	nil	-	0.55	-	0.55
City Technology	6 mths to Dec 31	11.1	(12.9)	4.55	(0.514L)	6.54	(0.71L)	2	-	nil	-	5.27
Craig & Rose	Yr to Dec 31	3.05	(3.71)	0.078	(0.390L)	11.83	(65.88L)	-	-	-	-	-
Densitron ✦ $	Yr to Dec 31	7.91	(4.29)	0.494	(1.39L)	0.03	(0.06)	-	-	-	-	-
Eyres	Yr to Dec 31	4.01	(1.87)	0.608L	(1.83L)	2.91†	(6.5L)	-	-	-	-	-
ICM Computer	6 mths to Dec 31	18.5	(16)	1.95	(1.42)	6.7†	(5.2)	0.9	Apr 15	-	-	1.75
Irish Permanent ✦	Yr to Dec 31	-	(-)	66.7	(55)	52.1	(41.9)	13.4□	Mar 26	10.7	19.5	15.3
KS Biomedix ✦	6 mths to Nov 30	-	(-)	0.596L	(0.557L)	1.2L	(1.3L)	-	-	-	-	-
Laden	Yr to Nov 29	134.6	(113.9)	2.554	(1.59)	8†	(4.5)	5	May 21	5	7.5	7.5
Merant	12 mths to Jan 31	158.1	(97)	7.69L	(12.7)	7.3L	(14)	-	-	-	-	-
NatWest Bank	Yr to Dec 31	-	(-)	2,142¶	(975)	91.2	(34.5)	24.2	May 4	21.6	35	32.2
Nottingham Forest	6 mths to Nov 30	7.15	(5.1)	2.48	(1.29L)	5.8	(3.1L)	-	-	-	-	-
NXT	6 mths to Dec 31	8.38	(14.6)	4.73L	(2.52L)	7.7L	(4.5L)	nil	-	nil	-	nil
Oxford Asymmetry	Yr to Dec 31	14.9	(10.1)	3.71	(2.04)	8.77	(6.2)	-	-	-	-	-
Pervair	Yr to Nov 30	62.8	(71)	1.04L	(8.86)	4L	(18)	4.1	Apr 15	4.1	6.4	6.2
Stadium	Yr to Dec 31	76.7	(82.6)	2.56	(5.76)	8†	(15)	3.65	May 4	3.35	5.5	5
Transport Dev Grp	Yr to Dec 31	469.1	(529.1)	3.93	(30.8)	4.09L	(15.73)	6.55	May 3	5.5	11.3	9.5
Unilever	Yr to Dec 31	27,094	(29,766)	3,085	(4,719¶)	28.45	(44.74)	7.75	May 21	5.62	10.7	8.42
Vymura	Yr to Dec 31	40.8	(41)	3.24	(5.12)	9.4	(14.2)	4	May 6	3.8	5.7	5.4
Whessoe (George)	Yr to Dec 31	1,402	(1,223)	55.1	(63.1)	17.59	(12.06)	3.9	May 13	3.7	6	5.7

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ✦After exceptional charge. ¶After exceptional credit. †On increased capital. ✦Comparatives restated. $On reduced capital. Shown in US dollars. ✦Of 15 month period to Apr 30. Includes interim of 1.5p to be paid on Apr 7. Irish currency. □Second interim. Includes special.

M&S directors to go in clear out

By Peggy Hollinger

Marks and Spencer, the UK's biggest clothing retailer which last month issued a surprise profits warning, is today expected to announce the departure of three executive directors as part of a wider redundancy programme.

It is also understood that more than 100 divisional directors and senior managers will go in the first stage of the restructuring led by Peter Salsbury, chief executive.

The three board directors are: John Sacher, 57, responsible for information technology and physical distribution, Derek Hayes, 50, European retail and franchise operations, Chris Littmoden, 54, who ran the company's US business.

The first two directors are little known in the City, but the departure of Mr Littmoden is likely to be greeted with some surprise.

He was cited as a potential candidate for the chief executive post last year but was passed over in favour of Mr Salsbury, as was the group's deputy chairman, Keith Oates, who departed after a high profile boardroom battle.

Analysts suggested Mr Littmoden's departure would give weight to rumours that M&S was planning to sell its US businesses – Brooks Brothers and Kings Super Markets.

"It will almost certainly confirm the speculation, the analyst said.

However, a company source said the departures were the result of reshaping the business into three profit centres – UK retail, overseas and financial services – under three joint managing directors.

But others inside the business also suggested it was Mr Salsbury's attempt to break with the past and the culture under M&S's former executive chairman, Sir Richard Greenbury.

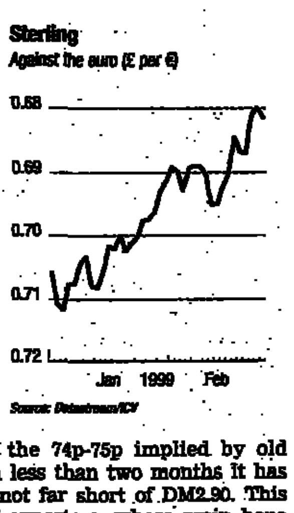
M&S is also expected to scale back its international operations, which have performed poorly in recent months, Germany in particular.

COMMENT

UK/Emu

Tony Blair's way of "stepping up a gear" offers little help to business trying to prepare for the euro. The pound's rate against the euro could be fixed as early as May 2002 or as late as 2004 – or not at all. Mr Blair has not yet committed the government to joining the single currency. And even if he does, the outcome of a referendum is uncertain. Whatever the timetable, the big question remains unanswered: at what rate will the pound go in? Since the euro was launched, the pound's relative strength has taken it further away from the 74p-75p implied by old forecasts of DM2.60-DM2.65. In less than two months it has moved up from 71p to 68p – not far short of DM2.90. This remains a tough level for UK exporters, whose main hope for relief must lie in further cuts in interest rates from the current 5½ per cent.

Sterling
Against the euro (£ per €)



Source: Datastream/ICV

NatWest

Why are investors still so suspicious of NatWest? The bank seems a reformed character compared with its old profligate self. The management is, if belatedly, doing all the right things – cutting costs in the retail business and switching capital out of investment banking. Returns are not going up quite as fast as the management had hoped. But at 17.2 per cent, the return on equity is back in respectable territory, and close to the group's 17.5 per cent target.

Yet investors remain worried about the sustainability of the recovery. This is reflected in the share price. On both earnings and price:book measures, NatWest remains on a 20 per cent discount to Barclays, a comparable story. This seems unfair, if understandable. In doubt is NatWest's ruthlessness in continuing to reduce costs in the retail business. The management did not help yesterday by suggesting that expected savings on IT investment might take longer to achieve. But the nub of the doubts is that the management team is the same that got the bank into a mess in the first place.

Nonetheless, NatWest is slowly building a banana-skin free reputation, which is encouraging. Credit quality has remained good, vindicating the bank's claim to have read the UK economic cycle as well as anyone. NatWest is beginning to generate surplus capital again, opening up the possibility of a juicy £1bn buy-back this year. By any measure the shares are cheap.

PROFILE LI KA-SHING

Beyond the goldfish bowl

He arrived in Hong Kong without a cent but he is now head of one of the few Asian conglomerates that is still expanding, say **Rahul Jacob and Louise Lucas**

AN old joke in Hong Kong is that for every dollar spent in the city, five cents go to Li Ka-shing. It is an exaggeration, but perhaps not a huge one.

Mr Li's diverse holdings include a cellular phone operator, a supermarket chain, the container port and a large share of the city's towering skyscrapers. Now Mr Li, a mainland refugee who arrived in Hong Kong with barely a cent to his name in 1939, wants a larger share of the money spent elsewhere in the world.

Recently, Mr Li's Hutchison Whampoa – 1997 turnover HK$44.59bn ($5.64bn) – has been quickening the pace of its overseas acquisitions. Last month, its port-operating arm said it was in the final stages of acquiring a 50 per cent stake in Rotterdam's European Combined Terminals, one of the busiest ports in the world. As Hutchison already owns three ports in the UK, the deal, subject to regulatory approvals, would make Hutchison the largest port operator in Europe. A couple of weeks ago, Mr Li's group unveiled details of a US$2bn (£1.2bn) shopping, hotel and office complex it is building in Beijing.

Mr Li's other high-profile investments in Europe have begun to pay rich dividends. Hutchison owns 49 per cent of Orange, the UK cellular operator. Since Hutchison's initial investment in Orange in 1990, the UK company has added an estimated HK$45bn in shareholder value to the group. Hutchison, once predominantly a property company in Hong Kong, now boasts telecommunications operations in Israel, ports in China and an oil company in Canada.

As the head of an Asian conglomerate that is expanding rather than retrenching after the financial crisis, Mr Li is something of a rare phenomenon. "We are a home-grown multinational. Our group now employs 70,000 people in 24 countries. Our diversification has provided us with varied sources of income and has shielded us from the worst of the financial crisis," he says at the headquarters of Cheung Kong, the property company through which he controls Hutchison.

Mr Li made his first fortune manufacturing plastic flowers and never looked back. In 1979, he created a local sensation when he became the first Chinese businessman to acquire control of a British *hong* – the trading conglomerates that dominate Hong Kong's business scene. The company was Hutchison Whampoa, now the locomotive of his group's overseas growth.

'Diversification has shielded us from the worst of the financial crisis'

Not everything Mr Li has touched overseas has immediately turned to gold. For example, Rabbit, an early-generation cellular phone service in the UK, lost money until it was closed in 1993, when Hutchison took a large charge on the venture.

Arguably, Mr Li's boldest bets have been at home. He invested heavily in the territory in the early 1980s even while tense discussions between Britain and China about Hong Kong's handover hit business confidence. He continued to invest in Hong Kong after the killing of student demonstrators in 1989 unnerved large sections of the local population.

Mr Li has been back at it again since late 1997, repurchasing more than HK$1.3bn in his property conglomerate's shares. This was during a period when the Hang Seng headed steadily downwards before rebounding after the government's US$15bn intervention on the stock market in August. "During every economic downturn, we have made large investments in Hong Kong," says Mr Li.

He has just accomplished a handover of his own. Since January 1, his son Victor has been chief executive of Cheung Kong. "For the past four or five years he has almost done the CEO's job so I don't worry," says Mr Li. "Some of the job he can do better than me, like making a property deal and marketing." He has far from retired, however. "Before I worked 130 per cent. Now I work 100 per cent," he says.

His sons have experienced little of their father's hardships, except by proxy: he took them on trams to see how other people lived and got them to sit in on business meetings from an early age. He recently said: "Kids from wealthy families are like greenhouse plants. Their roots are not strong and if you spoil them a little, they'll have a tough time the rest of their lives."

Victor and his younger brother Richard earned handsome salaries in jobs overseas before returning to Hong Kong. Richard was earning almost C$500,000 (£205,000) when his father asked him to come home. "I said: 'My boy, you are spoilt. Come back to Hong Kong to work.' I think I gave him less than one-tenth of his last income," Mr Li recounts.

He is less happy with Hong Kong's political coming of age. In December, he said he would not make a $1.3bn investment there because the city had become too politicised. Elections last May for a partially elected legislature have created a political lobby that dares to criticise the business establishment.

"I think a lot of people wrongly relate the state of our society to political development alone. Our society should be built on discipline, respect for law and order, harmony, a vital economy, care and consideration for others and a comfortable life for everyone," says Mr Li.

Mr Li has recently found his prominence in Hong Kong a two-edged sword. He and Victor were criticised last year for not respecting the law when they did not report Victor's kidnapping, masterminded by a local gangster, to the police. The gangster was subsequently tried and executed in a case that threw an unflattering light on the territory's legal autonomy.

Last March, when Mr Li's property company won a government tender for a site, the bid was attacked for being too low.

While Hong Kong remains his base, being the biggest fish in the territory's goldfish bowl is not always comfortable. "[In Hong Kong] people were always saying that you were too big. Under those circumstances, the only way to get better returns for our shareholders was to expand overseas," Mr Li said recently of his global strategy.

Li Ka-shing: 'During every economic downturn, we have made large investments'

INFORMATION TECHNOLOGY BUSINESS AND THE INTERNET

Freeserve hooks window shoppers

A major electronic retailer has woken up to the web, says **Christopher Price**

europe.com

There can be little doubt about what the biggest story has been in the UK internet industry over the past few weeks. The trickle of internet service providers moving to offer free access – following the pattern set in the US – is threatening to turn into a flood.

In as many weeks, three of the biggest names in the UK market – the supermarkets group Tesco, British Telecommunications and Richard Branson's Virgin group – have announced they will be abandoning subscriptions and offering a free service.

The reason for the upheaval is simple: Freeserve. In the five months since its launch, this free internet service has attracted 1.3m users – more than double the number claimed by its nearest rival, America Online.

The service is run by Dixons, a household name in the UK as the country's biggest electrical retailer. But Freeserve is only a part of Dixons' internet strategy, which also involves a new computer games site, an online magazine, supply chain management and internal communications.

Yet while Dixons has developed an integrated approach to the medium, John Clare, chief executive, admits that its early investment in the internet was "very speculative".

The group established its first electronic commerce site in 1996. This enabled users to select and buy 2,000 electrical items. While that has contributed to group sales, it has also fed Dixons valuable information about its customers. "It has brought us closer to our customers, and this in turn made integrating our systems – shops, advertising, products and marketing – more efficient," says Mr Clare.

Analysts forecast sales of £4m ($6.5m) from the internet for the group by the end of this year. While this is small given Dixons' £2.8bn total, other internet initiatives may also contribute.

The first is the web site for PC World, Dixons' computer retail chain. The site sells a complete range of computers and accessories.

Mr Clare also sees potential revenues from the downloading of software from the site, sold in conjunction with the retail units. Thus upgrades for a variety of software packages could be included to stimulate sales through the normal retail channels. The potential for cross-marketing also underpins the development of the @Jakarta computer games stores and web site.

Three trial stores have already opened, but Dixons believes the biggest stimulus to a possible national rollout will be the launch of the @Jakarta web site next month. This will develop a membership scheme, hold competitions, launch games, introduce products, all integrated with the retail chain.

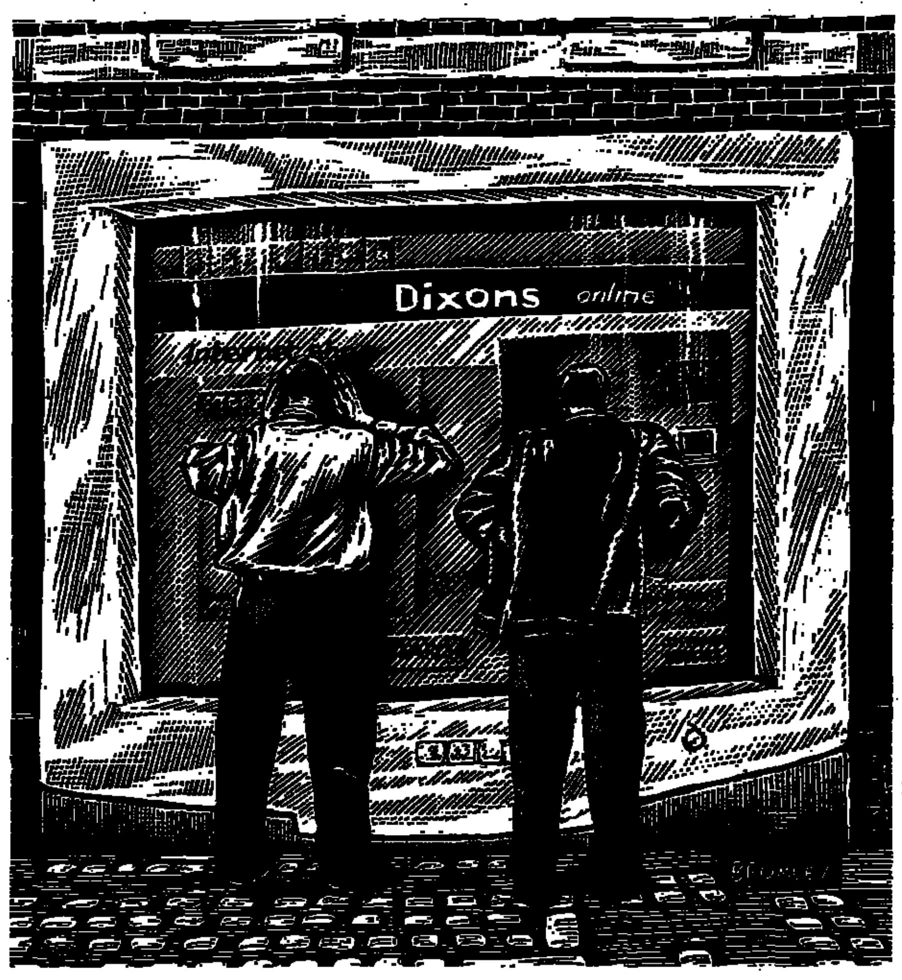
In its supply chain, Dixons has long used EDI connections with its main suppliers and is now moving towards the establishment of intranets. But Mr Clare admits more work is needed.

"As an industry, we have been slow to recognise the benefits in the supply chain that the internet can bring. This is an area of big opportunity."

But it is the continuing success of Freeserve that seems likely to dominate Dixons' internet strategy. Sarah Carpenter, director of new channels, says the concept was developed after the retailer had been marketing services for other ISPs, such as AOL, in their stores.

Dixons found that many customers buying PCs would take up an offer of a free trial with an ISP, but would then change to another operator, also offering a free trial, when the period ended.

The key to Freeserve's development, she believes, was timing. "The content was already out there, there was good distribution available from telecoms companies; and we had the distribution and point of presence with the customer buying PCs and software." Freeserve was also the UK's first free mass-market ISP.



Mr Clare adds: "Tesco might have the same type of customer base as us, but they are not talking technology with their customers the way we do."

The business rationale for Freeserve is simple: build up a mass market base and leverage that to attract advertisers, sponsors and e-commerce opportunities. To keep its million plus "eyeballs" on the site, the ISP is bringing in content, such as news, games and shopping services.

Dixons has brought forward its break-even date from the end of the year to April. It has also raised the possibility that Freeserve may be floated off at some point.

Criticism from subscription-based ISPs that users visit Freeserve only occasionally because it is free is rejected by Mark Danby, Freeserve general manager.

But challenges remain. With the advent of other free internet services, Freeserve's strong position could be undermined. In particular, competition for content is likely to accelerate and to push up costs.

Given the infancy of e-commerce, the number of operators chasing the finite pot of advertising revenue threatens earnings growth.

For Dixons, the internet continues to raise questions about the future of technology and of its core business. However, these are issues it appears determined to address. "I don't know the answer to all these questions," says Mr Clare, "but that's the reason we are there."

This is the fourth in a weekly series on European companies putting the internet at the heart of their business strategy. Previous articles featured Electrolux, RS Components and Lufthansa.

JOHN W. HUNT
ADVISES

An outside advantage

Appointing an external chief executive may have damaging repercussions

Dear Professor Hunt
My chairman has told me that the chief executive's job, which I had expected to get, is to be given to an outsider. This is despite all the indications I have been given and the huge investment the company has made in my development. The last five appointments at the senior level (out of a team of eight) have been external. Is this a growing trend or have I just been unlucky?"

You have not necessarily been unlucky, although luck is a factor in selection at your level. Being in the right place at the right time with the right sponsors is vital, despite all the sophisticated techniques of selection. Careers are essentially political outcomes.

Your feelings of frustration are very common. However, I do hope you can keep them in proportion. At the end of your career, the people who will really matter are your family and close friends. Don't take your disappointment out on them.

The broader issue concerns the paradox of a development plan that can be ignored. There has been an increasing tendency to seek chief executives from outside.

The arguments in favour of this are powerful. The need for change requires someone who is not committed to the current values and vision, someone who can bring a fresh perspective.

Unfortunately, whether this practice makes sense is difficult to tell. A chief executive's impact on a company's performance is a highly contested area of research. Some studies suggest that whoever runs the company has little direct impact; arguably, it is a team effort. Other research shows that an individual can make a big difference.

Any imported chief executive officer's success or failure depends on many factors. Externally, the state of the market, the behaviour of competitors, industry dynamics, the economic circumstances and, more recently, how long the Wall Street analyst will give him or her to make a mark, all have an effect. Internally, it is a question of how effectively the outsider can integrate into the top team.

There are other important consequences of external recruitment. Once a board starts searching for managers outside, it is predictable that some of its best people will soon start to look elsewhere for promotion. It is always the high-flyers who depart first, leaving a layer of less impressive colleagues.

Headhunters reinforce the belief that outside is better. For them, it is more lucrative and interesting to survey an entire industry, worldwide if necessary, than to take the best candidate from within.

To justify this cost, the board often adopts the high moral ground and declares the appointment will be an open competition. Yet by hiring consultants it has signalled a lack of confidence in its managers.

So I sympathise with your criticism of the process. Let me cite two examples. I have enormous difficulty in believing that out of a staff of 78,000 worldwide, not one man or woman was deemed capable of running Barclays Bank. So, for the second time in less than five years an outsider has been appointed to run the bank.

My second example is the BBC, which has recently appointed headhunters to find the next director-general. In the event of an outsider being appointed, are we to believe that from a staff of 20,000-plus, the BBC has no one capable of doing the job?

Barclays and the BBC are noted for their investment in staff development. Both have sophisticated and expensive management programmes designed to prepare people for the top jobs.

Finally, both organisations chose external chief executives last time. If they continue to do this, most effective senior managers will leave and the impressive younger managers will learn very early that the commitment to management development is only cosmetic.

There is no simple answer to the paradox in your question. It is perfectly acceptable to invest nothing in the development of your people, to promise them no advantage in promotion and to go to the market each time to recruit the person you need for a specific job. It is just as defensible to argue that the company should develop its own people.

Most companies fall somewhere in between. The dangerous position is to espouse one position and to practise another. When six of the eight members of the top team are external appointments and that company espouses a belief in developing its own managers, there is a mismatch.

John W. Hunt is Professor of Organisational Behaviour at London Business School and a consultant to private and public sector clients. This column appears fortnightly.

PAUL TAYLOR
IN LONDON
VIEWPOINT@FT

Capital idea to board e-bandwagon

A series of deals suggests Europe is awash with funds for internet pioneers

Has Europe's venture capital community caught internet fever just as it starts to cool on the other side of the Atlantic? A series of recent deals suggests so.

Among them, Apax Partners, the venture capital group which helped back Demon Internet, Computacenter and Dr Solomon's Software, has invested $12m in QXL, an online auction site.

QXL, founded by Tim Jackson, a freelance journalist who writes a weekly column for the Financial Times, offers QXL Direct, where it auctions branded goods and services on its own account; and QXL Exchange, where private sellers auction their own goods.

The company, also backed by Jonathan Bulkeley, chief executive of online retailer BarnesandNoble.com, has annualised sales of about $10m. Jackson plans to use the Apax funds to accelerate growth in marketing, operations and technical infrastructure.

Apax is also backing enba, a Dublin-backed start-up that plans to provide internet-based financial services and has raised more than £14m of venture capital funding.

The other main investors include Intel, the US chipmaker, Invision of Germany, and Vertex.

Dublin was chosen as home to the new venture for its skilled workforce and favourable tax regime, and because the enba team believes it will increasingly become the hub for internet financial services in Europe.

With a surfeit of funds in the overcrowded US markets looking for technology startups and the internet population in Europe expanding rapidly, more deals like these appear to be likely.

***

By 2002, according to Jupiter Research, 40 per cent of Europeans will have access to the internet compared with about 13 per cent today.

Numbers like these have inevitably caught the attention of potential European portal or gateway providers, including those already established in North America.

Among them, America Online, through its AoL Europe joint venture with Bertelsmann, Yahoo! and Netscape are all pushing strongly into the European portal market.

But they may face strong competition from European media groups including LineOne (a joint venture between News International, United newspapers and BT) in the UK and new entrants like VirginNet.

To succeed in Europe, companies will need a coherent web strategy, local market knowledge and – perhaps most crucially – a way to reach consumers easily and cheaply.

That may give established European media groups and retailers (including Dixons) an important advantage when it comes to distributing the software required for access and in order to lock in potential users.

It is unclear whether a pan-European portal makes sense, given local language and cultural differences, or whether the European portal model will be quite unlike that in the US. What is certain is that the winners, as in North America, are likely to be those who get to consumers first.

***

Once again Europe seems to have got itself into a pickle over e-commerce legislation.

The European Parliament has backed an amendment to Article 5.1 of a proposed copyright directive which opponents believe could outlaw caching – an important internet technology.

To cache is to temporarily store frequently requested internet content closer to local users, easing the pressure on internet bandwidth and speeding up the overall flow of data. Music industry executives and others fear that caching encourages piracy.

The amendment passed on February 10 outlaws all but "essential and integral" copying of files. Fortunately however, EuroISPA, the European Internet Service Provider's Association, which represents over 500 ISPs, says a draft directive on the legal aspects of electronic commerce may help to resolve the issue.

EuroISPA says amendments proposed by Christine Oddy, a Labour MEP and report draftsman, will "go some way to undoing the damage done by the recent vote on copyright."

In terms of caching, her proposals would allow caching which was automatic, intermediary and temporary.

Would it not have been easier to co-ordinate the two directives from the start?

paul.taylor@FT.com
This column appears fortnightly.

INFORMATION TECHNOLOGY
● The FT's review of Information Technology appears on the first Wednesday of each month

EURO PRICES

EQUITIES

Europe gains despite weak US and euro

EUROPEAN OVERVIEW

By Vincent Boland

European stock markets posted further gains yesterday despite another poor showing by the euro and some weakness in the US market in midday trading, which took some of the shine off its strong overnight rally.

While a great deal of Monday's telecommunications fever was dampened by the problems Olivetti faced in its hostile bid for Telecom Italia, other telecommunications stocks were back in the frame and doing well.

Some pleasing corporate results also helped other sectors and pan-European indices rose by up to 1.5 per cent.

While the euro's poor showing – it dropped below €1/$1.10 yesterday – is disappointing, analysts said it had little bearing on equity market performance at the moment. Investors were more interested in what Alan Greenspan, chairman of the US Federal Reserve, was saying about the US economy in Congressional hearings.

Mr Greenspan indicated that the Fed's current bias was more towards raising than cutting US interest rates.

The FTSE Eurotop 300 index of leading European shares rose 13.86 points to 1,235.39 while the FTSE Eurotop 100 index climbed 36.12 to 2,845.01. The FTSE Ebloc 100 index of euro-zone shares ended 15.67 higher at 1,023.19.

Olivetti, whose bid for Telecom Italia was declared invalid by Italy's stock market watchdog, fell 10 cents to €2.91, while shares in its much bigger target fell 30 cents to €9.56.

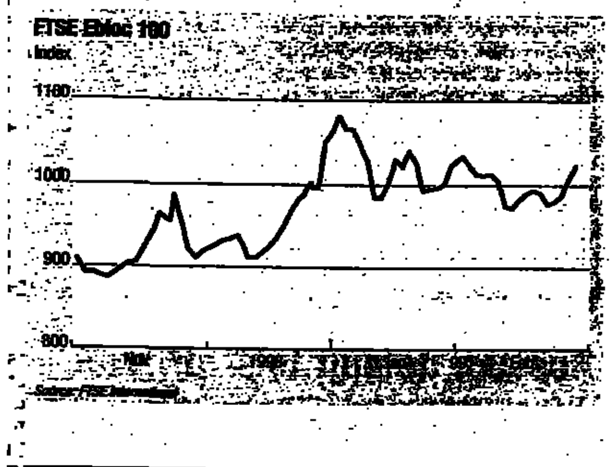
But with Telecom Italia now considered to be in play, speculation about whether one of the other big European operators would step in continued.

Deutsche Telekom rose €2.40 to €41.89 and TeleDanmark was €6 higher at €115.05. Mannesmann added €4.60 to €129.30. The telecommunications sector rose by roughly 0.5 per cent.

Among the day's best performers were information technology and software stocks, which rose sharply in line with Nasdaq stocks in the US. Nokia added €5.80 to €126.33, Alcatel gained €2.80 to €100.90 and SAP rose €18.50 to €312.

German engineering stocks also enjoyed a rally, with Preussag gaining €11.90 to €449.89.

FTSE Ebloc 100



THREE MONTH EUROMARK FUTURES (LIFFE) €1m 100-rate

[illegible]

THREE MONTH EURO LIBOR FUTURES (LIFFE) €1m 100-rate

[illegible]

THREE MONTH EURO LIBOR OPTIONS (LIFFE) €1m 100-rate

[illegible]

FTSE EUROTOP 100 INDEX FUTURES (LIFFE) €20 per full index point

[illegible]

EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) €10 per index point

[illegible]

OTHER INDICES

[illegible]

FTSE Actuaries Share Indices — European series

Feb 23 National & Regional Markets	Euro Index	Day's %	change points	Yield gross %	xd adj ytd	Total retn (Euro) €
FTSE Eurotop300	1235.39	+1.13	+13.86	2.20	1.33	1273.47
FTSE Eurotop100	2845.01	+1.29	+36.12	2.24	4.56	1021.51
FTSE Ebloc100	1023.19	+1.55	+15.67	2.05	0.60	1039.23
FTSE EuroMid	1188.44	−0.11	−1.27	2.79	1.30	1232.80
FTSE EuroMid Ebloc	1208.21	+0.61	+7.32	2.29	1.40	1235.20
FTSE EuroMid Ex UK	1232.61	−0.14	−1.67	2.18	0.96	1258.42
FTSE Eurotop 300 Regions						
Eurobloc	1278.90	+1.39	+17.52	2.00	1.00	1307.31
UK	1178.77	+0.85	+9.93	2.58	2.33	1240.18
Europe Ex-Eurobloc	1202.45	+0.87	+10.36	2.42	1.87	1247.23
Europe Ex-UK	1268.35	+1.28	+16.06	2.02	0.77	1292.86
FTSE Eurotop Industry Sectors						
RESOURCES	846.07	+1.36	+11.35	3.41	0.94	885.74
Mining	845.44	−0.14	−1.22	4.20	0.00	863.29
Oil & Gas	814.24	+1.43	+11.45	3.38	0.94	834.93
BASIC INDUSTRIES	1075.17	+1.41	+14.92	2.78	0.86	1098.86
Chemicals	824.96	+1.75	+14.18	2.74	0.65	840.20
Construction & Bld Matls	997.84	+0.37	+3.64	2.34	1.13	1007.73
Forestry & Paper	871.75	+1.17	+10.10	4.43	0.00	911.80
GENERAL INDUSTRIALS	1134.85	+1.41	+15.79	2.39	2.39	1161.49
Aerospace & Defence	822.41	−0.25	−2.09	2.02	0.00	833.76
Diversified Industrials	992.47	+1.71	+16.72	2.04	0.00	1015.18
Electronic & Elect Equip	1000.26	+0.41	+4.08	1.89	5.15	1010.92
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FTSE EUROTOP 300

[illegible]

CURRENCIES & MONEY

EURO SPOT FORWARD AGAINST THE EURO

[illegible]

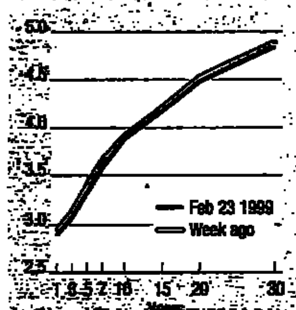
BONDS

INTEREST RATE SWAPS

Feb 23	Euro-€ Bid	Euro-€ Ask	£ Stlg Bid	£ Stlg Ask	SwFr Bid	SwFr Ask	US $ Bid	US $ Ask	Yen Bid	Yen Ask
1 year	3.03	3.08	5.25	5.28	1.47	1.51	5.27	5.30	0.30	0.33
2 year	3.09	3.13	5.11	5.14	1.70	1.78	5.43	5.46	0.44	0.47
3 year	3.23	3.27	5.10	5.14	1.94	2.02	5.50	5.53	0.69	0.72
4 year	3.39	3.43	5.10	5.14	2.13	2.21	5.56	5.59	0.97	1.00
5 year	3.55	3.59	5.09	5.13	2.31	2.39	5.60	5.63	1.25	1.28
6 year	3.70	3.74	5.08	5.12	2.48	2.56	5.65	5.68	1.50	1.53
7 year	3.84	3.88	5.08	5.12	2.64	2.72	5.70	5.73	1.71	1.74
8 year	3.96	4.00	5.08	5.12	2.80	2.88	5.74	5.77	1.89	1.92
9 year	4.07	4.11	5.08	5.12	2.95	3.03	5.78	5.81	2.03	2.06
10 year	4.15	4.19	5.08	5.12	3.09	3.17	5.80	5.83	2.16	2.19
12 year	4.31	4.35	5.08	5.13	3.31	3.41	5.89	5.92	2.38	2.42
15 year	4.50	4.54	5.10	5.15	3.57	3.67	5.97	6.00	2.65	2.70
20 year	4.73	4.77	5.10	5.16	3.82	3.92	6.05	6.08	2.84	2.89
25 year	4.84	4.88	5.10	5.17	3.83	4.03	6.05	6.08	2.93	2.98
30 year	4.91	4.95	5.10	5.17	4.02	4.12	6.05	6.08	2.99	3.05

Bid and ask rates as of close of London business. US $ is quoted annual money actual/360 basis against 3 months Libor, £ and Yen quoted on a semi-annual actual/365 basis against 6 months Libor, Euro/Swiss Franc quoted on annual bond 30/360 basis against 6 month Euribor/Libor with the exception of the 1 year rate which is quoted against 3 month Euribor/Libor. Source: Intercapital Brokers Ltd.

Euro bond yield curve



Euro against the dollar

EURO-ZONE BONDS

[illegible]

HIGH YIELD								
Geberit	04/07	10.125	B+	106.619	8.38	−0.05	+0.42	+4.72
Colt Telecom	11/07	8.875	n/a	106.450	7.84	−0.05	−0.54	+4.18
Impress Metal	05/07	9.875	B	102.065	9.50	+0.20	+1.80	+5.84
Remy Cointreau	07/05	10.000	B+	99.250	10.16	−0.05	−1.08	+6.73

Standard & Poor's ratings. Source: Interactive Data/FT Information.

S&P changes policy on Reit ratings

By Norma Cohen, Property Correspondent

Standard & Poor's, the US-based rating agency, is downgrading the preferred stock of eight real estate investment trusts, reflecting a new policy of reclassifying certain types of investment in such trusts as debt.

The move was part of a sweeping review by the rating agency of the way it evaluates the credit risks in preferred shares, and those affected by the downgrades include Glimcher Realty Trust, The Rouse Company and Vornado Realty Trust.

Analysts at Goldman Sachs warned that for borrowers losing their investment grade preferred stock rating, *interest rates could rise by 50 to 75 basis points.*

Although the downgrades on reit preferred stock were more modest than those applied to some industrial companies, analysts said the revised rating methodology was critical to property companies because of that sector's reliance on preferred shares for financing.

Reits are heavy issuers of preferred shares because they are the only alternative to unsecured borrowings for companies that *cannot issue* any more senior debt. Subordinated debt is very expensive for real estate companies and most find it is cheaper to mortgage properties for cash, rather than borrowing unsecured.

However, many companies prefer the flexibility of unsecured borrowing and have turned to the preferred stock market for new capital.

Industry analysts had warned that significant downgradings by S&P could force companies to rethink their capital structure.

Lisa Sarajian, S&P analyst of structured finance securities, said the move reflected significant changes in the structure of preferred shares over the past 15 years. "Fifteen years ago, preferred shares were more like equity. There is a general discomfort about the growing number of hybrid corporate debt issues," she said.

Although most preferred stock pays a fixed coupon, it often has equity characteristics, like allowing coupon payments to be postponed. "We were concerned investors did not understand the risk characteristics of these securities," Ms Sarajian said.

The review focused on the ratings relationship between senior obligations and subordinated and preferred securities; and the amount of equity credit given to hybrid equity securities with characteristics of both forms of capital. The agency was concerned that its approach was inconsistent across different industrial groups.

To combat the increase in borrowing costs some reits may be tempted to issue additional equity, *to achieve up capital levels, to achieve* investment-grade ratings on senior debt. However, given current depressed levels of reit share prices, existing shareholders are likely to object to the dilution.

Of the eight companies downgraded, only Rouse Company, fell below investment grade to BB+. Most of the others were already below investment grade, while Vornado Realty Trust is rated BBB−.

Sharp fall in US Treasuries

BENCHMARK BONDS

By Florian Gimbel in London and John Labate in New York

US Treasuries fell sharply following comments by Federal Reserve chairman Alan Greenspan in his Humphrey-Hawkins Testimony before Congress. European bonds, by contrast, moved slightly higher on domestic news.

"The Federal Reserve must continue to evaluate, among other issues, whether the full extent of the policy easings undertaken last fall to address the seizing up of financial markets remains appropriate as those disturbances abate," he said.

"The market went into the [Greenspan] testimony, thinking that the outcome would be neutral. Now, people seem to believe that there is an increasing potential for monetary tightening," said Glenn Davis at Credit Lyonnais.

Fear of a possible reversal of earlier interest rate cuts was exacerbated by the equity market's bullishness.

"Following the recent stock market rally, there has been a reversal of safe-haven flows. People have bought Treasuries in anticipation of a lower Dow, but the market has turned the other way," said Mr Davis.

By early afternoon, the 30-year US Treasury was down [illegible] to 97[illegible], sending the yield up to 5.413 per cent, and the 10-year note was off [illegible] to 97¾, yielding 5.078 per cent.

UK gilts finished higher after a subdued growth outlook and on growing optimism over the government's euro change-over plans.

"The government's plan crystallises the process by which UK interest rates will converge with their euro-zone counterparts," said David Knott at Deutsche Bank. He thought the short end of the UK yield curve would offer the highest "convergence potential".

Adding to the market's upbeat sentiment were revised fourth-quarter gross domestic product figures, which remained unchanged at 0.2 per cent growth.

The 10-year gilt future closed 0.30 higher at 117.87.

The benchmark 10-year Germany bund future ended at 116.10, up 0.22.

Japanese government bonds gave a lacklustre response to a 10-year bond auction as concern resurfaced over over-supply.

Deutsche Bank raises €2.5bn

NEW ISSUES

By Arkady Ostrovsky and Kevin Done

Deutsche Bank launched the largest euro-denominated bond yesterday, with an €2.5bn issue backed by its corporate loans.

The bonds, issued by Core, a special purpose vehicle, repackages into tradable collateralised loan obligations €2.5bn of loans made by Deutsche Bank to Germany's middle-market companies.

The deal consisted of nine euro and three dollar tranches with a weighted average life of 6.8 years.

The deal, which Deutsche Bank said was twice subscribed, *was modelled on* last year's Core-1 deal of DM4.2bn, the first loan collateralisation out of Germany.

DaimlerChrysler, the recently merged car manufacturer, launched a €600m five-year bond, its biggest to date. The issue, underwritten by Deutsche Bank and ABN Amro was aimed at institutional rather than the traditional retail investors in Europe.

Xavier Warner at ABN Amro said strong appetite for euro-denominated corporate paper prompted the bank *to double the size of* the issue from €300m. The deal follows Daimler's earlier euro-denominated bond issue of €200m, which was launched to yield 35 basis points over German bunds and is now trading at 15 basis points over.

The issuance of fixed-rate bond in euros has been slowed by the lack of arbitrage opportunities in the currency, but observers said companies such as Daimler are keen to establish visible benchmarks in euros even if it cost them a couple of basis *points in the swap market.*

The bonds, issued by the company's North American division, were priced to yield 33 basis points over the five-year bund and tightened slightly after the launch.

The Republic of Croatia raised €300m in its inaugural euro-denominated issue. The bonds have a maturity of seven years and were priced at 375 basis points over the relevant bund.

The issue was led by Credit Suisse First Boston and Dresdner Kleinwort Benson. The strongest appetite was shown by insurance companies and other institutional investors in Germany, the Benelux countries and the UK.

The relatively high spread allowed Croatia to increase the size of the bond from the €250m originally planned and to lengthen the maturity from five to seven years. The issue is expected to meet most of the government's international borrowing needs for 1999.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Federal Home Loan Banks‡	3bn	5.125#	99.835R	Feb 2001	0.075R	+32(5½% 2y)	Salomon Smith Barney
GTFC Hil 1999-A(a)†	1.2bn						Merrill Lynch
Bear Stearns Companies	750	6.15#	99.809R	Mar 2004	0.35R	+118(Feb04)	Bear Stearns & Co Inc
Oest Kontrollbank	150	zero	95.209	Mar 2000	0.05		Nomura International
EUROS(b)							
Core 1999-1(b)	2,484bn		100.00				Deutsche Bank
BNL International Luxt	750	(c)	99.895R	Mar 2004	0.175R		ABN Amro/Warburg DR
DaimlerChrysler Nth America	600	3.50	99.634R	Mar 2004	0.25R	+33(3¾%Jan04)	ABN Amro/Deutsche Bank
Crédit Local de France(f)	500	3.625(e)	99.93R	Jul 2004	0.275R	+26(3¾%Jul04)	Commerzbank/SG
Cofinoga†	300	(d)	99.81R	Mar 2006	0.30R		Lehman Brothers
Republic of Croatia	300	7.375	99.61R	Mar 2006	0.75R	+375(6%06)	CSFB/Dresdner KB
DNIB	250	3.625(e)	99.665R	Dec 2004	0.275R	+20(3¾%Jul04)	ING Barings-BBL
Deutsche Finance Nethalgt	260	(g1)	99.79R	Feb 2004	0.15R		Deutsche Bank

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. *Unlisted. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) 12-tranches ([illegible]) secured on corporate loans originated by Deutsche Bank. b) Green Tree Financial Corp, Home Equity Loans, 12-tranches. c) 3-mth Euribor +19bp. d) 3-mth Euribor +25bp. e) Spread relates to German govt bonds unless stated. f) Spread re French govt bonds. g) Fungible with €500m. Plus 7 days accrued. g1) 3-mth Euribor +8bp. ‡ Short 1st coupon.

NEWS DIGEST

INTERNATIONAL BONDS

Papua New Guinea plans $250m debut offering

Papua New Guinea is to launch its debut international bond. The offering is likely to be a five-year $250m issue, to be launched in April and targeted at investors in Europe, Asia and Australia, say bankers.

PNG is a rare borrower on the international capital markets. Traditionally, the mineral-rich country has tapped markets through multilateral sources. Most of PNG's debt is concessionary – often trade finance provided by its neighbour Australia. The country has little short-term debt, enjoys a steady growth rate and is rich in commodities.

Bankers say the borrower is likely to be rated between the Ba1/BB+ rating of the Philippines, which is shortly expected to become the first Asian borrower to issue debt in euros, and Indonesia, which is rated B3/CCC+.

PNG recently resumed talks with the World Bank about a $120m loan to meet a budget shortfall, after resolving a dispute over the country's move last year to hire a former World Bank official. The mandate for the bond issue has been awarded to JP Morgan and Warburg Dillon Read. **Khozem Merchant**

EMERGING MARKET DEBT

Russian default hits turnover

Turnover in emerging market debt instruments plummeted by almost 30 per cent in 1998, with volume shrivelling in the aftermath of the Russian debt default last August. The decline in volumes – the first annual drop since 1995 – affected emerging markets unevenly, according to the Emerging Markets Traders Association, which compiled the report.

Brazil's C-bond, the most heavily traded emerging market instrument, saw a 16 per cent decline in volume, with turnover thinning markedly in the last quarter as concern grew over the country's foreign exchange position.

Surprisingly, because of the default on domestic government bonds, Russian debt saw a 6 per cent rise in annual turnover, although its share of overall emerging market trading halved to 10 per cent in the final quarter.

Mexican debt – more than half of which was accounted for by turnover in local currency instruments – saw a 35 per cent decline to $640bn for the year. Turnover in all emerging market debt instruments averaged $1,200bn in the first three quarters and fell to just $522bn in the last quarter. Local currency trading accounted for 28 per cent of overall turnover.

Of the few countries to register an increase in turnover, Turkey benefited from the surge in its domestic government bond yields. Overall volume of trading in Turkish bonds almost tripled. Other countries that saw a sharp increase were South Korea, which saw a 900 per cent surge in volume, and Greece, which offered investors much higher yields than any other member of the European Union. **Edward Luce**

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Feb 23	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	3.750	102.7651	4.82	+0.01	+0.05	+0.13	−0.14
	09/08	6.750	124.9165	5.36	+0.01	+0.02	+0.28	−0.35
Austria	03/01	5.250	104.2200	3.08	−	−0.02	−0.09	−0.88
	01/08	5.000	107.4600	3.88	−0.04	−0.08	+0.13	−1.06
Belgium	03/01	5.000	103.8800	3.05	−0.02	+0.14	+0.14	−0.98
	09/08	3.750	97.3400	4.08	−0.02	−0.02	+0.22	−0.92
Canada	12/00	5.000	99.8800	5.07	+0.04	+0.03	+0.25	+0.01
	06/08	6.000	105.1500	5.16	+0.03	+0.01	+0.23	−0.28
Denmark	11/00	9.000	109.0800	3.40	−0.02	−0.18	−0.64	−0.72
	11/09	6.000	114.8700	4.24	−0.02	+0.02	+0.26	−1.00
Finland	04/00	4.000	101.2010	2.98	−0.01	−0.04	+0.08	−0.67
	04/08	5.000	107.8900	4.09	−0.04	−0.03	+0.03	−0.89
France	07/00	4.000	101.3600	2.98	−0.01	−0.06	−0.11	−0.98
	04/06	7.250	122.6900	3.59	−0.03	−0.02	+0.21	−1.06
	04/08	4.000	103.3900	3.95	−0.01	−0.02	+0.27	−1.01
	04/29	5.500	113.7900	4.92	−0.01	−0.08	+0.21	−0.70
Germany	05/01	5.000	104.3100	2.95	−0.02	−0.05	+0.06	−0.83
	01/08	6.000	113.7700	3.89	−0.03	−0.01	+0.23	−1.02
	01/08	3.750	98.1400	3.89	−0.03	−0.03	+0.21	−1.07
	07/28	4.750	98.3800	4.79	−0.03	−0.02	+0.21	−0.73
Greece	03/00	9.800	105.1300	8.64	−0.03	+0.42	−0.48	−5.06
	01/09	6.300	101.4500	6.10	+0.08	−0.01	−0.22	−4.80
Ireland	10/01	6.500	108.4800	3.12	−0.02	−0.06	+0.10	−1.83
	08/08	6.000	113.1700	4.04	−0.02	−0.07	+0.21	−1.14
Italy	07/01	4.500	103.1000	3.11	−0.02	−0.03	+0.13	−1.54
	07/03	4.500	104.4000	3.41	−0.04	−0.07	+0.16	−1.44
	05/08	4.500	103.8100	4.04	−0.04	−0.07	+0.16	−1.29
	11/27	6.500	123.0800	4.88	−0.03	−0.07	+0.13	−0.87
Japan	12/00	6.900	111.8000	0.32	+0.05	−0.13	−0.34	−0.32
	12/03	4.100	114.0600	1.06	+0.09	−0.22	−0.16	−0.16
	09/08	1.800	99.4400	1.86	+0.12	+0.12	+0.12	+0.20
	09/18	2.300	92.9700	2.77	+0.12	+0.12	+0.17	+0.28
Netherlands	01/01	9.000	110.7500	3.01	−	+0.04	+0.12	−0.89
	07/08	3.750	98.3500	3.94	−0.04	−0.08	−0.20	−0.97
New Zealand	02/01	8.000	105.4893	4.99	+0.08	−0.01	+0.02	−2.68
	07/09	7.000	110.5728	5.64	+0.05	+0.01	+0.14	−1.25
Norway	05/01	7.000	104.2500	4.94	+0.09	+0.12	−0.43	+0.80
	05/09	5.500	106.0500	4.74	−0.01	−0.05	−0.21	−0.45
Portugal	03/00	5.375	102.5100	2.93	+0.01	−0.25	−0.19	−1.13
	06/08	5.375	110.1300	4.04	−0.03	−0.06	+0.17	−1.10
Spain	01/01	5.000	103.7500	2.96	−0.01	−0.07	+0.06	−1.50
	07/08	5.150	108.7100	4.33	−0.02	+0.24	+0.51	−0.79
Sweden	05/00	10.250	107.8202	3.25	+0.02	−	−	−1.37
	05/08	6.500	117.4300	4.17	−0.02	−0.01	+0.25	−1.23
Switzerland	06/00	4.500	103.9300	1.36	+0.01	−0.04	−	+0.05
	01/08	4.250	116.2500	2.21	−0.03	−0.16	−0.04	−0.52
UK	11/01	7.000	105.6100	4.68	−0.04	−0.07	+0.19	−1.98
	12/03	6.500	108.8000	4.44	−0.03	−0.07	+0.27	−1.66
	12/09	5.750	112.2500	4.32	−0.02	−0.19	+0.18	−1.57
	12/28	6.000	127.8000	4.33	−0.03	−0.06	+0.13	−1.55
US	01/01	4.500	99.1306	4.96	+0.07	+0.01	+0.35	−0.50
	02/04	4.750	98.8772	5.01	+0.06	−0.03	+0.39	−0.60
	11/08	4.750	97.5638	5.07	+0.05	−0.06	+0.34	−0.57
	02/29	5.250	97.7534	5.40	+0.05	−0.13	+0.22	−0.54

London closing. * New York mid-day. Source: Interactive Data/FT Information. Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Feb 23	Bid Yield	Spread vs Euros	Spread vs T-Bonds		Bid Yield	Spread vs Euros	Spread vs T-Bonds
Australia	5.37	+1.51	+0.30	Netherlands	3.98	+0.12	−1.09
Austria	4.12	+0.26	−0.95	New Zealand	5.65	+1.79	+0.58
Belgium	4.05	+0.19	−1.02	Norway	4.74	+0.88	−0.33
Canada	5.17	+1.31	+0.10	Portugal	4.11	+0.25	−0.96
Denmark	4.20	+0.34	−0.87	Spain	4.14	+0.28	−0.93
Finland	4.07	+0.21	−1.00	Sweden	4.20	+0.34	−0.87
France	3.92	+0.06	−1.15	Switzerland	2.32	−1.54	−2.75
Germany	3.86	−	−1.21	UK	4.37	+0.51	−0.70
Greece	8.22	+2.36	+1.15	US	5.07	+1.21	−
Ireland	4.08	+0.22	−0.99				
Italy	4.06	+0.20	−1.01				
Japan	1.89	−1.97	−3.18				

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised-yield basis.

EMERGING MARKET BONDS

Feb 23	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
EUROPE								
Croatia	02/02	7.000	BBB−	93.8844	9.38	+0.17	−0.27	+4.36
Poland	07/04	7.125	BBB−	105.7604	5.83	+0.02	−0.17	+0.82
Russia	06/07	10.000	N/a	28.7000	39.76	+2.07	−3.08	+34.71
LATIN AMERICA								
Argentina	09/27	9.750	BB	81.2517	12.09	+0.21	−0.42	+6.72
Brazil	05/27	10.125	B+	67.9076	15.02	+0.09	−2.47	+9.85
Mexico	05/26	11.500	BB	105.5165	10.86	−0.02	−0.39	+5.51
ASIA								
China	07/06	7.750	BBB+	101.1942	7.52	−0.04	+0.18	+2.49
Philippines	10/16	8.750	BB+	90.6625	9.87	+0.17	−0.06	+4.66
Thailand	04/07	7.750	BBB−	99.5045	7.83	−0.06	+0.26	+2.78
AFRICA/MIDDLE EAST								
Lebanon	07/00	8.125	BB−	102.0719	7.47	+0.17	+1.79	+2.52
South Africa	10/06	8.375	BB+	95.0097	9.30	+0.04	−0.57	+4.27
Turkey	09/07	10.000	B	88.7445	12.16	+0.06	+0.21	+7.11
BRADY BONDS								
Argentina	03/23	5.750	BB	68.7500	9.26	+0.05	−0.39	+3.96
Brazil	04/14	5.000	B+	58.6250	14.23	+0.03	−1.65	+9.08
Mexico	12/19	6.250	BB	75.4368	8.85	+0.04	−0.04	+3.61
Venezuela	03/20	6.750	B+	65.0000	11.07	+0.09	−0.21	+5.82

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

NOTIONAL EURO BOND FUTURES (MATIF) €100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	111.40	111.63	+0.33	111.85	111.33	31,237	104,078

LONG TERM EURO BOND OPTIONS (MATIF)

Strike Price	Calls Mar	Calls Jun	Calls -	Puts Mar	Puts Jun	Puts -
109	2.15	-	-	0.02	-	-
110	1.18	-	-	0.07	-	-
111	0.39	-	-	0.35	-	-
112	0.07	-	-	1.03	-	-

Est. vol. total, Calls 550 Puts 0. Previous day's open int., Calls 11,800 Puts 9,869.

Germany

NOTIONAL GERMAN BUND FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	115.76	116.10	+0.22	116.23	115.72	606,583	488,187

NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	109.09	109.22	+0.11	109.23	109.06	169,133	225,245

NOTIONAL LFB SWAP FUTURES (LIFFE)* 5yr 4.0% DM250,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	-	101.66	-	-	-	0	1015

NOTIONAL LFB SWAP FUTURES (LIFFE)* 10yr 4.5% DM250,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	-	102.19	-	-	-	0	940

Also traded on APT. All Open interest figs. are for previous day.

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	113.65	113.90	+0.16	114.18	113.65	12317	43799

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF) €100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	116.83	117.02	+0.19	117.24	116.79	16,307	21,099
Jun	−	99.01	+0.21	−	-	−	−

UK

NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	-	108.68	+0.07	-	-	0	63
Jun	-	108.47	+0.07	-	-	0	0

NOTIONAL UK GILT FUTURES (LIFFE)* £100,000 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Mar	117.70	117.86	+0.29	118.04	117.60	58530	80420
Jun	118.70	118.93	+0.34	119.11	118.61	17760	12451

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

LONG GILT FUTURES OPTIONS (LIFFE) £100,000 100ths of 100%

Strike Price	Calls Jun	Calls Sep	Puts Jun	Puts Sep
11800	2.01	2.68	1.08	1.75
11850	1.72	2.41	1.29	1.98
11900	1.45	2.16	1.52	2.23
11950	1.23	1.93	1.80	2.50
12000	1.04	1.71	2.11	2.78
12050	0.87	1.51	2.44	3.08

Est. vol. total, Calls 600 Puts 312. Previous day's open int., Calls 5567 Puts 1759

US

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Mar	123-21	123-17	−0-06	123-26	123-13	248,071	566,811
Jun	123-08	123-02	−0-06	123-10	122-31	58,615	286,550
Sep	122-24	122-22	−0-04	−	−	161	8,520

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	131.30	131.23	-	131.45	131.05	3337	n/a
Jun	130.07	130.01	-	130.18	129.84	1025	n/a

Euro

€ BOND FUTURES (MATIF) €100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	−	109.38	−0.26	−	−	1	161

US CORPORATE BONDS

Feb 22	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
UTILITIES								
Pac Bell	07/02	7.25	AA−	105.3257	5.48	−0.03	+0.24	+0.48
NY Tel	08/25	7.00	A+	100.6032	6.94	−0.04	+0.30	+1.49
CWE	05/08	8.00	BBB	113.7666	6.02	−0.09	−0.21	+1.00
FINANCIALS								
GECC	05/07	8.75	AAA	118.8062	5.83	−0.05	+0.33	+0.81
Banc One	08/02	7.25	A	104.7544	5.75	−0.03	+0.12	+0.70
CNA Fin	01/18	6.95	A−	94.7901	7.46	−0.32	+0.46	+2.11
INDUSTRIALS								
WMX Tech	04/99	6.25	BBB+	100.0234	5.86	−0.05	+0.28	+1.39
Wal Mart	06/02	6.75	AA	104.7618	5.14	−0.04	+0.29	+0.14
Dayton Hud	06/21	9.70	A−	136.0818	6.88	−0.05	+0.10	+1.23
AGENCIES								
FHLMC	04/07	7.14	NA	110.1488	5.67	−0.05	+0.26	+0.58
SLMA	03/03	7.50	NA	107.4254	5.50	−0.05	+0.09	+0.57
FNMA	02/18	6.65	NA	104.5701	5.97	−0.04	+0.23	+0.42
FFCB	09/06	6.36	NA	102.3575	5.50	−0.06	+0.29	+0.49
HIGH YIELD								
Stone Cont	02/01	8.88	B	101.8750	8.00	-	-	-
AK Stl	12/01	9.13	BB−	105.6250	6.00	-	-	-
Pacalta	09/04	10.75	B−	76.5000	6.00	-	-	-

NY latest. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information.

US INTEREST RATES

Latest

Prime rate	7¾	One month	-	Two year	4.98
Broker loan rate	6½	Two month	-	Three year	5.00
Fed.funds	4½	Three month	4.65	Five year	5.02
Fed.funds at intervention	-	Six month	4.63	10-year	5.08
		One year	4.75	30-year	5.41

Treasury Bills and Bond Yields

INTERNATIONAL BONDS

Feb 23	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yield	Mth's chge yield	Spread vs Govts
EIB	04/07	7.250	AAA	108.3623	5.77	+0.04	+0.29	+0.72
ABN Amro	08/07	7.125	AA	104.8438	6.39	+0.04	−0.05	+1.33
Quebec	01/07	7.000	A+	105.2641	6.15	+0.04	+0.17	+1.10
Citicorp FRN	03/04	5.312	A+	98.6240	5.63	+0.03	−1.01	+0.62
DM								
Bayer L-Bk	08/04	5.500	AAA	117.6036	5.65	+0.02	+0.30	+0.21
Toronto (M of)	05/04	6.500	AAA	113.0238	5.69	+0.02	+0.27	+0.12
Canada	07/06	10.625	A+	101.8081	5.49	−0.04	+0.25	+1.27
Deutsche B FRN	09/02	5.875	AA+	100.8180	5.85	+0.03	+0.23	+0.42
£								
EIB	12/07	7.625	AAA	117.7988	5.08	−0.02	+0.20	+0.53
Gen Elec	12/07	7.750	AAA	112.7698	5.84	−0.05	−0.05	+1.31
British Gas	03/00	7.625	A+	102.1390	5.54	−0.02	−0.11	+0.39
Abbey Nat FRN	02/02	5.587	AA	100.0406	4.23	−0.03	+0.02	−0.41
Other								
Ontario	01/08	3.750	AA	104.3529	3.18	−0.03	−0.08	+0.09
Brit Columbia	03/02	3.250	AA	100.8551	1.90	−0.02	−0.01	+0.59
Hydro-Quebec	05/01	6.750	n/a	109.0212	2.54	−	+0.02	+1.05
Gen Elec	09/01	1.711	AAA	99.8894	1.30	−	+0.02	+0.01
Euro								
IBRD (World Bk)	03/02	5.250	AAA	114.4098	0.50	+0.03	−0.14	−0.13
Spain (Kingdom)	03/02	3.750	AA	115.7441	0.57	+0.06	−0.15	−0.08
Cred Foncier	09/02	4.750	A	112.3309	1.22	+0.07	−0.24	+0.29
Italy (Rep of)	07/99	0.316	AA	100.0513	0.28	+0.10	−0.04	+0.03
A$								
IBRD (World Bk)	03/08	6.000	AAA	101.6144	5.76	+0.01	+0.31	+0.41
Nsw Stn Wales Tr	05/08	6.500	n/a	104.2190	5.77	−	+0.28	+0.52
S. Aus Gov Fin	06/03	7.750	AA	107.3166	5.78	+0.01	+0.19	+0.73
SMAC Aust	05/01	8.000	n/a	106.8465	5.64	−	+0.08	+0.71

London closing. Source: Interactive Data/FT Information. Standard & Poor's ratings. Yields: Local market standard/annualised basis.

UK BONDS

FTSE Actuaries Government Securities

Price Indices UK Gilts	Tue Feb 23	Day's chge %	Accrued interest	xd adj ytd	Total Return	Duration Years	Duration Yield	% Weight
1 Up to 5 years (16)	121.55	+0.08	1.76	1.63	1206.45	2.34	4.84	33.93
2 5-10 years (11)	172.32	+0.23	2.85	0.88	1340.45	5.82	4.49	29.39
3 10-15 years (7)	187.09	+0.29	2.13	1.34	1465.53	8.88	4.46	13.55
4 5-15 years (18)	176.61	+0.25	2.63	0.87	1376.33	6.76	4.48	42.94
5 Over 15 years (4)	233.11	+0.41	2.19	1.23	1593.23	11.76	4.46	22.35
6 Irredeemables (4)	327.82	+0.58	3.32	1.07	1908.68	23.13	4.60	0.78
7 All stocks (42)	167.02	+0.23	2.26	1.32	1361.34	6.91	4.49	100.00

UK Indices

Index-linked	Tue Feb 23	Day's chge %	Accrued interest	xd adj ytd	Total Return	% Weight
1 Up to 5 years (2)	225.46	+0.02	1.91	0.00	1170.64	15.02
2 Over 5 years (9)	259.25	+0.15	0.86	2.15	1402.84	84.98
3 5-15 years (5)	241.04	+0.11	0.65	2.03	1304.86	42.71
4 Over 15 years (4)	274.16	+0.20	1.08	2.29	1493.41	42.28
5 All stocks (11)	252.18	+0.13	1.03	1.79	1370.05	100.00

Yield Indices	Feb 23	Feb 22	Yr ago	Yield Indices	Feb 23	Feb 22	Yr ago
5 yrs	4.54	4.57	6.22	Irred †	4.60	4.62	6.11
10 yrs	4.47	4.50	6.04	Med. 15 yrs	4.48	4.51	6.00
15 yrs	4.47	4.50	6.00	High 15 yrs	4.60	4.62	6.11
20 yrs	4.47	4.50	5.98				

Coupon Bands: Medium: 8%-10¾%; High: 11% and over. † Flat yield, ytd Year to date.

Real yield	Inflation 0% Feb 23	Dur yrs	Feb 22	Yr ago	Inflation 5% Feb 23	Dur yrs	Feb 22	Yr ago
Up to 5 yrs	3.04	3.28	3.04	3.50	2.19	3.30	2.20	2.67
Over 5 yrs	2.06	13.22	2.07	3.18	1.85	13.33	1.86	2.95
5-15 yrs	2.12	9.80	2.13	3.24	1.83	9.85	1.84	2.90
Over 15 yrs	2.03	16.84	2.04	3.15	1.86	16.94	1.87	2.97
All Stocks	2.10	11.66	2.11	3.18	1.87	11.79	1.88	2.95

FT Fixed Interest Indices

	Feb 23	Feb 22	Feb 19	Feb 18	Feb 17	Yr ago	High*	Low*
Govt. Secs. (UK)	115.32	114.72	114.64	114.69	114.62	103.36	117.17	93.31
Fixed Interest	158.65	158.16	156.31	157.78	157.44	139.46	158.45	115.32

 * for 1998/99. Government Securities high since compilation: 127.40 (1/9/35), low 49.18 (1/3/75). Fixed Interest high since compilation: 158.45 (22/01/99), low 50.33 (3/1/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

UK GILTS PRICES

	Notes	Yield Int	Yield Red	Price £	+ or −	52 week High	52 week Low
Shorts" (Lives up to Five Years)							
Treas 9½pc 1999		9.50	5.61	100.0000	—	102.11	100.00
Treas Flg Rate 1999		-	-	100.0414	+.0042	100.23	100.02
Exch 12¾pc 1999		12.18	5.51	100.5561	−.0189	105.38	100.56
Treas 10½pc 1999		10.37	5.12	101.2125	−.0127	104.24	101.21
Treas 6pc 1999		5.97	4.96	100.4849	−.0120	100.50	98.84
Conv 10¼pc 1999		9.87	4.91	103.8202	−.0026	105.70	103.82
Treas 8½pc 2000	‡	8.23	4.87	103.2805	+.0139	103.54	101.61
Conv 9pc 2000		8.65	4.84	104.0990xd	+.0139	104.44	102.66
Treas 13pc 2000		11.73	4.80	110.8614	+.0186	113.79	110.58
Treas 8pc 2000		7.59	4.79	105.3977	+.0328	105.84	102.22
Treas Flg Rate 2001		-	-	100.7854	+.0152	100.82	100.17
Treas 10pc 2001		9.11	4.81	109.8045xd	+.0427	110.37	107.11
Conv 9½pc 2001	‡	8.60	4.85	110.4065	+.0427	110.89	108.73
Conv 9¾pc 2001	‡	8.78	4.88	111.3255	+.0427	111.80	107.58
Treas 7pc 2001		6.61	4.87	105.8205	+.0646	106.51	100.71
Exch 12pc 1999-2	‡	12.00	4.52	100.0000	—	104.15	100.00
Conv 10pc 2002	‡	8.68	4.69	115.2068	+.0965	116.41	110.56
Treas 7pc 2002		6.53	4.59	107.2682	+.0941	108.13	101.42
Conv 9½pc 2002	‡	8.30	4.70	114.4908	+.0969	115.64	109.76
Treas 9¾pc 2002		8.39	4.69	116.1778xd	+.0988	117.29	111.19
Exch 9pc 2002	‡	7.86	4.72	114.5708	+.0988	115.62	108.87
Conv 9¾pc 2003	‡	8.18	4.70	119.1788	+.0986	120.19	112.78
Treas 8pc 2003		7.06	4.64	113.3352	+.1332	114.74	106.68
Treas 10pc 2003		8.21	4.60	121.8498xd	+.1368	123.52	115.44
Treas 13¾pc 2000-3	‡	12.26	4.75	112.1504	+.0156	115.57	112.13
Five to Fifteen Years							
Treas 6½pc 2003		5.97	4.43	108.8163	+.1585	110.21	100.86
Treas 11½pc 2001-4		1.02	4.88	112.6365	+.3205	112.64	110.60
Treas 10pc 2004	‡	8.00	4.62	124.6926	+.1368	126.55	117.36
Funding 3½pc 1999-4		3.88	4.07	97.1851	−.0024	98.98	91.16
Conv 9½pc 2004		7.60	4.53	124.5716	+.2166	126.43	116.53
Treas 6¾pc 2004		6.04	4.42	111.6945	+.2226	113.28	102.62
Conv 9½pc 2005		7.53	4.56	126.1922	+.2320	128.16	117.84
Exch 10½pc 2005	‡	7.86	4.55	133.5582	+.2320	136.46	124.50
Treas 12½pc 2003-5		9.36	4.32	133.6048	+.1366	135.55	127.40
Treas 8½pc 2005		6.90	4.49	123.1642	+.2539	125.31	113.65
Conv 9¾pc 2006	‡	7.30	4.54	133.5182	+.3102	136.21	123.81
Treas 7¾pc 2006		6.45	4.65	120.2012xd	+.2551	122.40	109.86
Treas 8pc 2002-6		7.29	4.73	110.5866	+.0291	111.73	104.96
Treas 7½pc 2006		6.29	4.52	119.3106	+.2671	121.62	108.83
Treas 11¾pc 2003-7	‡	9.39	4.15	125.1396	+.0966	126.29	119.81
Treas 8½pc 2007		6.68	4.54	127.3082	+.3192	129.86	116.17
Treas 7¼pc 2007		6.05	4.48	119.8490	+.2877	122.56	108.19
Treas 13½pc 2004-8	‡	9.61	4.46	140.4826	+.2106	142.61	133.46
Treas 9pc 2008		6.63	4.39	135.8141	+.3635	138.52	122.15
Treas 8pc 2009		6.15	4.40	130.1860	+.3047	132.81	115.29
Treas 5¾pc 2009		5.12	4.31	112.2567	+.2418	114.67	99.36
Treas 6¼pc 2010		5.36	4.41	116.6794	+.3373	118.76	100.96
Conv 9pc Ln 2011		6.31	4.47	142.6422	+.3917	145.31	125.73
Treas 9pc 2012		6.21	4.51	144.8654	+.4185	147.74	128.84
Treas 5½pc 2008-12		5.00	4.20	110.0521	+.3258	112.28	95.19
Treas 8pc 2013		5.84	4.51	136.9066	+.4499	139.64	118.21
Treas 7¾pc 2012-15		5.92	4.55	131.0173	+.3761	133.66	114.45
Over Fifteen Years							
Treas 8pc 2015		5.67	4.48	141.0724	+.4769	144.12	120.57
Treas 8¾pc 2017		5.73	4.51	152.6051xd	+.5375	156.06	129.73
Exch 12pc 2013-17	‡	6.60	4.48	181.6922	+.3917	183.80	158.64
Treas 8pc 2021		5.35	4.45	149.6011	+.6358	153.21	124.06
Treas 6pc 2028		4.66	4.32	127.6687	+.6853	131.17	100.65
Undated							
Consols 4pc		4.73	-	84.4896	−.3504	87.79	62.22
War Loan 3½pc		4.56	-	76.7637	+.5391	79.83	56.68
Conv 3½pc '61 Aft.		3.94	-	88.7637	+.5391	95.68	73.86
Treas 3pc '66 Aft.		4.94	-	60.6960	+1.8866	61.93	45.18
Consols 2½pc		4.49	-	55.6000	+1.8866	58.93	40.18
Treas. 2½pc		4.71	-	53.8950	−.3917	55.17	39.80

Index-Linked	Notes (b)	Yield (1)	Yield (2)	Price £	+ or −	52 week High	52 week Low
2½pc '99	‡	1.42	2.93	195.6393	+.0235	196.18	190.88
2½pc '01	(78.3)	2.44	2.88	203.1713	+.0235	206.40	196.88
2½pc '03	(78.8)	2.07	2.34	205.3361	+.0448	207.83	193.98
4⅜pc '04	(135.6)	1.82	2.04	133.1410	+.0630	134.39	125.18
2pc '06	(69.5)	1.64	1.80	234.4835	+.1557	236.06	208.29
2½pc '09	(78.8)	1.80	1.92	214.6688	+.1839	216.83	189.78
2½pc '11	(74.6)	1.87	1.97	228.0489xd	+.2754	230.17	197.28
2½pc '13	(89.2)	1.90	1.99	191.6979	+.2765	193.59	163.75
2½pc '16	(81.6)	1.88	1.96	212.3743	+.3353	214.49	176.67
2½pc '20	(83.0)	1.89	1.95	211.8851	+.5047	213.98	171.58
2½pc '24	(97.7)	1.84	1.90	184.2183	+.3133	185.97	144.27
4⅛pc '30	(135.1)	1.79	1.84	183.3190	+.4186	184.75	142.14

Prospective real redemption rate on projected inflation of (1) 5% and (2) 3%. (b) Figures in parentheses show RPI base for indexing (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in February 1987. Conversion factor 3.945. RPI for June 1998: 163.4 and for January 1999: 163.4.

Other Fixed Interest

	Notes	Yield Int	Yield Red	Price £	+ or −	52 week High	52 week Low
Asian Dev 10¼pc 2009		7.32	6.12	139⅞	—	140⅞	139⅞
B'ham 11½pc 2012		7.28	6.50	158	—	158¾	144½
Leeds 13½pc 2006		9.12	−	148	—	152	141¾
Liverpool 3½pc Irred		5.58	−	63	—	70½	52
LCC 3pc '20 Aft.		5.24	−	57¼xd	—	66	46
Manchester 11½pc 2007		8.04	5.40	143	—	151¾	133½
Met. Wtr. 3pc 'B'		3.30	4.65	91xd	—	95	85
N'wide Anglia 3⅞pc IL 2021		−	3.22	184⅜	—	187¾	172¼
4⅛pc IL 2024		−	3.15	180⅛xd	—	187½	150⅝

● 'Tap' stock. All UK Gilts are tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Prospective real Index-Linked redemption yields are calculated by HSBC Greenwell from Bank of England closing prices. ‡ indicative price.

CURRENCIES & MONEY

Euro slides again over policy disarray

MARKETS REPORT

By Alan Beattie and Melanie Carroll

The euro fell to a new low against the dollar yesterday as economic policy in the euro-zone sank into further disarray.

The running spat continued between Wim Duisenberg, the European Central Bank president, and Oskar Lafontaine, the German finance minister.

After Mr Duisenberg's comments on Monday night that political pressure on the ECB had contributed to euro weakness over the past few weeks, Mr Lafontaine hit back yesterday.

Speaking early in the European trading session, he reiterated his call for lower interest rates and added that there was room to manoeuvre monetary policy in a stable environment. "At the moment there is no danger of inflation," he added.

The euro dived downwards after Mr Lafontaine's speech, lending support to Mr Duisenberg's views. It broke below the $1.10 level against the dollar to fall as low as $1.095.

But it recovered early in the US trading session after Alan Greenspan warned that the dollar was vulnerable to the widening US trade deficit. The euro finished the London session at $1.098.

Meanwhile Klaus Gretschmann, head of Gerhard Schroeder's economics department, said yesterday that failure to complete the Agenda 2000 reforms of the European Union finance and agriculture threatened further weakness in the euro.

"There are at least five different positions among current EU members, but agreement is necessary for EU enlargement," said Hans Redeker, senior economist at Chase Manhattan in London. "If they can't agree on this, how can they agree on fiscal co-ordination?," he added.

The only crumb of comfort for the hard-pressed currency came from an unlikely source. Ian Plenderleith, head of markets at the Bank of England, said yesterday that some of the euro's weakness might be short term and connected to the enthusiasm for issuing bonds in euros. Investors then swapping out of the euro weakened it, he said.

■ Despite the problems with the euro, the UK drove sterling closer to membership yesterday with the publication of its changeover plan to monetary union.

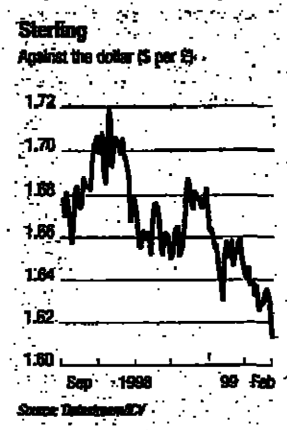
Government briefing to the effect that the statement meant a change of gear, if not a change in direction, led to a market reaction early in the London session. Sterling hit six-month lows against the dollar, closing at $1.611. Against the euro it fell to £0.682.

But Eddie George, Bank of England governor, denied the pound would necessarily follow the weakening euro.

"We don't see it as part of our job to bring sterling into line with the euro," he said.

Sterling

Against the dollar ($ per £)



Source: Datastream/ICV

■ The Brazilian Real fell dramatically yesterday but analysts are not warning of an imminent collapse.

The Real started London trading at R$1.95 against the dollar and fell to R$2.05 before rising slightly to close at R$2.04.

Analysts said rising inflation and the maturing on Monday of $300mn worth of international bonds helped send the Real down towards levels seen in late January.

However, Gene Frieda, an analyst at 4Cast, said the Real's dive was also due to the resumption of normal pressures after last week's carnival gave the currency some breathing space.

Mr Frieda said he did not think the Real was in immediate danger of falling apart, despite yesterday's dip.

Brazil's normal foreign debt payments resumed this week, and the Real has also been hurt by local dollar speculation, Mr Frieda said.

"I think we won't see too much of a massive slump, nor a rebound. The tone is of modest weakness unless there is a sharp hike in interest rates," he said.

The Brazilian monetary policy committee meets next week to set interest rates in a climate of high and rising inflation since the devaluation earlier this year.

The International Monetary Fund is considering releasing US$9bn of the $41bn aid package to Brazil, which analysts say would help firm up the currency.

"The market is waiting to hear more on the IMF package, and the Real is biased toward further losses," Mr Frieda said.

■ POUND IN NEW YORK

Feb 23	—Latest—	– Prev. close –
£ spot	1.6135	1.6265
1 mth	1.6127	1.6255
3 mth	1.6121	1.6251
1 yr	1.6148	1.6276

■ OTHER CURRENCIES

Feb 23	£	$
Czech Rp	55.4440 - 55.5311	34.4180 - 34.4550
Hungary	366.544 - 367.049	227.540 - 227.740
Iran	4835.10 - 4832.70	3000.00 - 3000.00
Kuwait	0.4907 - 0.4911	0.3046 - 0.3047
Peru	5.5141 - 5.5217	3.4230 - 3.4260
Poland	6.2342 - 6.2534	3.8700 - 3.8800
Russia	36.8886 - 36.9563	22.9000 - 22.9300
U.A.E.	5.9185 - 5.9199	3.6728 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Feb 23		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria*	(Sch)	20.1921	−0.0480	825 - 017	20.3193	20.1825	20.1544	2.2	20.0814	2.2	19.7764	2.1	102.7
Belgium*	(BFr)	59.1956	−0.1405	674 - 237	59.5880	59.1674	59.0948	2.2	58.871	2.2	57.9768	2.1	102.4
Denmark	(DKr)	10.8105	−0.0241	061 - 148	10.8788	10.8061	10.8939	1.8	10.8615	1.8	10.7401	1.6	105.7
Finland*	(FM)	8.7249	−0.0207	207 - 290	8.7800	8.7207	8.7086	2.2	8.677	2.2	8.5452	2.1	81.2
France*	(FFr)	9.6257	−0.0228	211 - 302	9.6862	9.6211	9.6076	2.3	9.5729	2.2	9.4275	2.1	105.8
[illegible]													
Saudi Arabia	(SR)	6.0437	−0.0428	418 - 456	6.1019	6.0411	6.05	−1.3	6.0667	−1.5	6.1737	−2.2	-
Singapore	(S$)	2.7739	−0.0042	724 - 753	2.8101	2.7718	2.7673	2.8	2.7534	2.9	2.7188	2.0	-
South Africa	(R)	10.0026	−0.0707	924 - 127	10.1036	9.9824	10.0876	−9.5	10.2426	−9.6	10.9067	−9.0	-
South Korea	(Won)	1952.09	−21.9300	919 - 499	1975.23	1949.19	-	-	-	-	-	-	-
Taiwan	(T$)	53.2535	−0.5390	597 - 473	53.8123	53.1597	53.389	−3.1	53.5535	−2.3	54.3115	−2.0	-
Thailand	(Bt)	60.4560	−0.6792	604 - 516	61.2080	60.3604	60.9424	−8.7	61.3294	−6.8	62.9413	−4.1	-

† Rates for Feb 22. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. * EMU member. The exchange rates printed in this table are also available on the Internet at http://www.FT.com.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Feb 23		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria*	(Sch)	12.5316	+0.0585	287 - 344	12.5722	12.4398	12.5142	1.7	12.4737	1.8	12.2803	2.2	102.5
Belgium*	(BFr)	36.7378	+0.1715	294 - 461	36.8570	36.4510	36.6867	1.7	36.568	1.8	35.9424	2.2	102.5
Denmark	(DKr)	6.7712	+0.0327	702 - 722	6.7937	6.7225	6.7642	1.2	6.7466	1.5	6.6582	1.7	104.9
Finland*	(FM)	5.4148	+0.0252	136 - 160	5.4324	5.3725	5.4073	1.7	5.3898	1.8	5.2975	2.2	80.8
France*	(FFr)	5.9739	+0.0279	725 - 752	5.9932	5.9271	5.9656	1.7	5.9463	1.9	5.8445	2.2	105.3
[illegible]													
Singapore	(S$)	1.7215	+0.0095	210 - [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
South Africa	(R)	6.2078	-	030 - [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
South Korea	(Won)	1211.50	−5.0600	000 - [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
Taiwan	(T$)	33.0500	−0.1000	000 - [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
Thailand	(Bt)	37.5200	−0.1550	700 - [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-

† SDR rate per $ for Feb 22. ‡ Official rate set by Malaysian government. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. [illegible] 1990=100. Bid, offer, and spot rates and forward rates in both this and the Pound tables are derived from THE WM/REUTERS 4pm CLOSING SPOT and FORWARD RATE services. Some values are rounded by the F.T. * EMU member. The exchange rates printed in this table are also available on the Internet at http://www.FT.com.

WORLD INTEREST RATES

MONEY RATES

Feb 23	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Euro-zone	3⅛	3⅛	3⅛	2⅞	3	-	3.00	3.00
Switzerland	1⅜	1¼	1½	1¼	1⅞	-	1.00	-
US	4¾	4⅞	4⅝	5⅛	5⅛	-	4.50	-
Japan	⅛	⅛	⅛	⅛	⅛	-	0.50	-
■ $ LIBOR BBA London								
Interbank Fixing	-	4⅞	5	5⅛	5¼	-	-	-
US Dollar CDs	-	4.74	4.78	4.82	4.96	-	-	-
Euro Linked Ds	-	3⅛	3⅛	3⅛	3⅛	-	-	-
SDR Linked Ds	-	3⅞	3¾	3⅛	3⅛	-	-	-
BBA Euro Libor	-	3⅛	3⅛	3⅛	3⅛	-	-	-
Euro Euribor	-	3.088	3.076	3.026	3.023	-	-	-
EONIA	3.34	-	-	-	-	-	-	-
EURONIA	3.2242	-	-	-	-	-	-	-

London interbank fixing rate (LIBOR) is the BBA London rate, fixed at 11am. Bid rates are shown for the domestic Money Rates, US$ CDs, Euro & SDR Linked Deposits (Ds).

INTERNATIONAL CURRENCY RATES

Feb 23	Short term	7 days notice	One month	Three months	Six months	One year
Euro	3⅜ - 3⅛	3⅛ - 3⅛	3⅛ - 3⅛	3⅛ - 3	2⅞ - 2⅞	3 - 2⅞
Danish Krone	3⅞ - 3⅛	3¾ - 3⅝	3⅞ - 3⅛	3¾ - 3⅛	3⅝ - 3⅞	3⅝ - 3⅜
Sterling	5⅞ - 5¾	5¾ - 5⅝	5⅝ - 5½	5⅛ - 5⅜	5⅛ - 5⅛	5¼ - 5⅛
Swiss Franc	1⅝ - 1⅛	1⅝ - 1⅜	1½ - 1⅛	1⅜ - 1½	1⅞ - 1⅛	1⅜ - 1⅞
Canadian Dollar	4⅞ - 4⅝	5⅛ - 4⅞	5⅛ - 4⅞	5⅛ - 4⅞	5⅛ - 4⅞	5⅛ - 5
US Dollar	4⅞ - 4⅞	4⅞ - 4⅝	4⅝ - 4⅝	5⅛ - 4⅞	5⅛ - 5	5⅛ - 5⅛
Japanese Yen	⅛ - ⅛	⅛ - ⅛	⅛ - ⅛	⅛ - ⅛	⅛ - ⅛	- ⅛
Asian $Sing	⅛ - -	2⅛ - 1⅞	1⅞ - 1⅛	2 - 1⅞	2⅛ - 2⅛	2⅛ - 2⅛

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH EURIBOR FUTURES (MATIF) Paris interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	-	96.970	−0.005	-	-	-	29,008
Jun	-	97.115	+0.005	-	-	-	15,268

■ THREE MONTH EURIBOR FUTURES (LIFFE) €1m 100-rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.975	96.965	-0.015	96.980	96.965	39195	151258
Jun	97.115	97.105	-0.005	97.130	97.100	24711	137095
Sep	97.140	97.145	+0.005	97.170	97.140	21982	102199
Dec	96.880	96.880	-	96.915	96.875	6579	86101

■ THREE MONTH EURO LIBOR FUTURES (LIFFE) €1m 100-rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	97.065	96.965	-0.015	96.980	96.965	1531	119546
Jun	97.115	97.105	-0.005	97.120	97.110	269	107309
Sep	97.150	97.145	+0.005	97.155	97.150	312	94071
Dec	96.875	96.880	-	96.875	96.875	18	87096

■ EURIBOR OPTIONS (LIFFE) €1m 100-rate

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Mar	PUTS Jun	PUTS Sep	PUTS Dec
96875	0.100				0.010			
97000	0.030	0.160	0.220	0.155	0.065	0.055	0.075	0.275
97125	0.010				0.170			
97250	0.005	0.050	0.100	0.075	0.290	0.195	0.205	0.445

Est. vol. total, Calls 13313 Puts 1440. Previous day's open int., Calls 156782 Puts 83066

■ THREE MONTH EURO LIBOR OPTIONS (LIFFE) €1m 100-rate

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Mar	PUTS Jun	PUTS Sep	PUTS Dec
96875								
97000	0.135	0.220	0.155	0.265	0.030	0.075	0.275	0.200
97125								
97250	0.035	0.100	0.075	0.145	0.180	0.205	0.445	0.330

Est. vol. total, Calls 702 Puts 0 Previous day's open int., Calls 285174 Puts 160314

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m 100-rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	98.660	98.700	+0.040	98.710	98.650	15326	86222
Jun	98.560	98.640	+0.070	98.650	98.560	19382	66643
Sep	98.460	98.520	+0.070	98.530	98.460	6346	35091
Dec	98.150	98.210	+0.070	98.220	98.150	1559	16035

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m 100-rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	-	99.62	-0.02	-	-	0	n/a
Jun	99.66	99.65*	-0.03	99.66	99.65	200	n/a
Sep	-	99.64	-0.04	-	-	0	n/a

* LIFFE futures also traded on APT

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr1m 100-rate

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	PUTS Mar	PUTS Jun	PUTS Sep
98750	0.045	0.130	0.130	0.095	0.240	0.360
98875	0.015			0.190		

Est. vol. total, Calls 0 Puts 0 Previous day's open int., Calls 3850 Puts 2162

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Feb 23		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	€
Belgium*	(BFr)	100	18.43	16.26	4.848	1.952	4800	5.463	21.47	497.0	412.5	22.07	3.952	1.689	4.079	2.722	329.9	2.479
Denmark	(DKr)	54.26	10	8.822	2.631	1.059	2604	2.964	11.65	269.6	223.8	11.98	2.144	0.917	2.213	1.477	179.0	1.345
France*	(FFr)	61.50	11.33	10	2.982	1.201	2952	3.360	13.20	305.6	253.7	13.57	2.430	1.039	2.509	1.674	202.9	1.525
Germany*	(DM)	20.63	3.802	3.354	1	0.403	990.0	1.127	4.428	102.5	85.07	4.553	0.815	0.348	0.841	0.561	68.04	0.511
Ireland*	(I£)	51.22	9.441	8.329	2.483	1	2459	2.798	11.00	254.6	211.3	11.31	2.024	0.865	2.089	1.394	169.0	1.270
Italy*	(L)	2.083	0.384	0.339	0.101	0.041	100	0.114	0.447	10.35	8.593	0.460	0.082	0.035	0.085	0.057	6.873	0.052
Netherlands*	(Fl)	18.31	3.374	2.977	0.888	0.357	878.6	1	3.930	90.97	75.50	4.041	0.723	0.309	0.747	0.498	60.39	0.454
Norway	(NKr)	46.58	8.585	7.574	2.258	0.909	2236	2.545	10	231.5	192.1	10.28	1.841	0.787	1.900	1.268	153.7	1.155
Portugal*	(Es)	20.12	3.709	3.272	0.976	0.393	965.8	1.099	4.320	100	82.99	4.441	0.795	0.340	0.821	0.548	66.38	0.499
Spain*	(Pta)	24.24	4.469	3.942	1.175	0.473	1164	1.324	5.205	120.5	100	5.351	0.958	0.410	0.989	0.660	79.98	0.601
Sweden	(SKr)	45.30	8.350	7.367	2.197	0.885	2175	2.475	9.727	225.2	186.9	10	1.790	0.765	1.848	1.233	149.5	1.123
Switzerland	(SFr)	25.31	4.664	4.115	1.227	0.494	1215	1.382	5.433	125.8	104.4	5.586	1	0.428	1.032	0.689	83.48	0.627
UK	(£)	59.19	10.91	9.625	2.870	1.156	2841	3.234	12.71	294.2	244.1	13.07	2.339	1	2.415	1.611	195.3	1.467
Canada	(C$)	24.52	4.519	3.986	1.189	0.479	1177	1.339	5.263	121.8	101.1	5.411	0.969	0.414	1	0.667	80.88	0.608
USA	($)	36.74	6.771	5.974	1.781	0.717	1763	2.007	7.887	182.6	151.5	8.109	1.452	0.621	1.499	1	121.2	0.911
Japan	(Y)	30.31	5.587	4.929	1.470	0.592	1455	1.656	6.508	150.6	125.0	6.691	1.198	0.512	1.236	0.825	100	0.751
Euro	(€)	40.34	7.435	6.560	1.956	0.788	1936	2.204	8.661	200.5	166.4	8.904	1.594	0.682	1.646	1.098	133.1	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100. * EMU member.

■ D-MARK FUTURES (CME) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.5647	0.5603	−0.0060	0.5663	0.5598	12,063	56,997
Jun	0.5676	0.5636	−0.0055	0.5676	0.5626	478	2,029
Sep	-	0.5706	-	-	-	1	167

■ JAPANESE YEN FUTURES (CME) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.8287	0.8278	−0.0004	0.8368	0.8236	38,269	83,139
Jun	0.8377	0.8374	−0.0008	0.8461	0.8345	429	6,077
Sep	-	0.8502	-	-	-	1	1,549

■ SWISS FRANC FUTURES (CME) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.6914	0.6885	−0.0043	0.6941	0.6875	16,061	58,237
Jun	0.6965	0.6941	−0.0052	0.6965	0.6941	104	710
Sep	-	0.7010	−0.0039	-	0.7010	3	249

■ STERLING FUTURES (CME) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	1.6258	1.6118	−0.0090	1.6268	1.6100	11,545	61,966
Jun	1.6182	1.6100	−0.0100	1.6182	1.6098	161	2,042
Sep	-	1.6110	−0.0140	-	1.6110	260	230

UK INTEREST RATES

LONDON MONEY RATES

Feb 23	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6⅛ - 4¾	5¾ - 5⅛	5⅞ - 5⅜	5⅞ - 5⅛	5⅛ - 5⅛	5¾ - 5¾
Sterling CDs	-	-	5⅞ - 5⅞	5⅞ - 5⅛	5⅜ - 5¾	5¾ - 5⅛
Treasury Bills	-	-	5⅞ - 5⅛	5⅞ - 5⅛	-	-
Bank Bills	-	-	5⅞ - 5⅛	5¾ - 5⅛	-	-
Local authority deps.	5¾ - 5¾	5⅛ - 5⅛	5⅞ - 5⅛	5⅛ - 5⅛	5⅛ - 5⅛	5⅛ - 5¾
Discount Market deps	5¾ - 5⅛	5¾ - 5⅛	-	-	-	-

UK clearing bank base lending rate 5½ per cent from Feb 4, 1999

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	4	6.5	6.5	6.25	6.25

Certs of Tax dep. under £100,000 is 4pc. Deposits withdrawn for cash 2pc. Ave. tender rate of discount on Feb 19, 5.0124pc. ECGD fixed rate Stlg. Export Finance. Make up day Jan 29, 1999. Agreed rate for period Feb 24, 1999 to Mar 23, 1999, Scheme III 7.19pc. Reference rate for period Jan 1, 1999 to Jan 29, 1999, Schemes IV & V 5.926pc. Finance House Base Rate 6.5pc for Feb 1999.

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	94.670	94.680	+0.010	94.690	94.670	10976	186500
Jun	94.950	94.930	-0.020	94.970	94.930	17599	192916
Sep	95.060	95.050	-	95.070	95.040	14860	196361
Dec	94.850	94.845	+0.015	94.870	94.840	3923	143369
Mar	95.040	95.050	+0.010	95.060	95.030	13381	136797

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	PUTS Mar	PUTS Jun	PUTS Sep
94500	0.190	0.460	0.605	0.010	0.030	0.055
94625	0.100			0.045		
94750	0.050	0.265	0.415	0.120	0.085	0.115
94875	0.020			0.215		
95000	0.005	0.125	0.260	0.325	0.195	0.210
95125	0			0.445		

Est. vol. total, Calls 18811 Puts 9872. Previous day's open int., Calls 558016 Puts 623938

EMS EUROPEAN CURRENCY UNIT RATES

Feb 23	Euro cen. rates	Rate against Euro €	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Greece	353.109	323.10	+1.05	−8.50	8.91	57
Denmark	7.46038	7.4344	−0.0001	−0.35	0.00	2
NON ERM MEMBERS						
UK	0.653644	0.67960	+0.0007	3.97	−4.15	-

Euro central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Euro; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Euro central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Euro central rate. 17/9/92: Sterling suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Mar	CALLS Apr	CALLS May	PUTS Mar	PUTS Apr	PUTS May
1.610	1.93	2.59	3.06	0.59	1.33	1.78
1.620	1.25	2.07	2.51	0.93	1.75	2.22
1.630	0.87	1.64	2.08	1.40	2.23	2.70

Previous day's vol., Calls 10 Puts 10. Prev. day's open int., Calls 467 Puts 1,563

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS Mar	CALLS Apr	CALLS May	PUTS Mar	PUTS Apr	PUTS May
0.560	0.71	1.07	1.29	0.20	0.51	0.65
0.565	0.42	0.78	1.01	0.41	0.73	0.87
0.570	0.24	0.56	0.77	0.76	1.01	1.14

Previous day's vol., Calls - Puts 206. Prev. day's open int., Calls 384 Puts 2,757

■ THREE MONTH EURODOLLAR (CME) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	94.98	94.98	-	94.99	94.98	23,436	444,916
Jun	94.92	94.94	+0.02	94.93	94.90	37,173	493,137
Sep	94.85	94.88	+0.04	94.88	94.83	59,174	428,219

■ US TREASURY BILL FUTURES (CME) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	95.59	95.56	−0.05	95.59	95.54	515	2,369
Jun	95.65	95.66	−0.03	95.66	95.68	10	717

All Open interest figs. are for previous day

BASE LENDING RATES

	%		%		%
Adam & Company	5.50	Exeter Trust Limited	6.50	Smith & Williamson	5.50
Allied Irish Bank (GB)	5.50	●Robert Fleming & Co	5.50	Sun Bank	5.50
●Henry Ansbacher	5.50	Habib Bank AG Zurich	5.50	TSB	5.50
Banco Bilbao Vizcaya	5.50	Heritable & Gen Inv Bk	5.50	United Bank of Kuwait	5.50
Bank of Cyprus	5.50	C. Hoare & Co	5.50	Unity Trust Bank Plc	5.50
Bank of Ireland	5.50	●SG Hambros Bank & Trust	5.50	Whiteaway Laidlaw	5.50
Bank of India	5.50	Hongkong & Shanghai	5.50	Yorkshire Bank	5.50
Bank of Scotland	5.50	Investec Bank (UK) Ltd	5.50	● Members of London Investment Banking Association	
Barclays Bank	5.50	Julian Hodge Bank	5.50		
Brit Bk of Mid East	5.50	●Leopold Joseph & Sons	5.50		
●Brown Shipley & Co Ltd	5.50	Lloyds Bank	5.50		
Citibank NA	5.50	Midland Bank	5.50		
Clydesdale Bank	5.50	NatWestminster	5.50		
The Co-operative Bank	5.50	●Rea Brothers	5.50		
Coutts & Co	5.50	Royal Bk of Scotland	5.50		
Cyprus Popular Bank	5.50	Scottish Widows Bank	5.50		
Duncan Lawrie	5.50	●Singer & Friedlander	5.50		

SILVER ANNUAL SURVEY SEES FURTHER RISE IN 2000

Prices expected to reach $7.50 this year

By Gillian O'Connor
Mining Correspondent

Silver prices are expected to reach $7.50 an ounce in the second half of this year and $9-$10 an ounce by 2000, according to an annual silver survey released yesterday by CPM Group, a New-York research group.

CPM estimated that stocks of silver bullion declined by 217.2m ounces in 1998 to about 359.8m ounces at the end of the year, more than two years' cover for the expected shortfall.

The net deficit in the bullion market amounted to 192.2m ounces last year, more than 11 per cent down on 1997, and is expected to fall to 144m ounces this year.

The price target for the second half represented a rise of over one-third on the price fixed in the London bullion market yesterday.

Mr Jeffrey Christian of CPM acknowledged in the silver survey that he had been a touch premature in some of his forecasts a year ago.

Mr Christian said silver inventories continued to be drawn down, and that silver inventories were approaching critically low levels, although he reckoned the firm's basic analysis still held.

"The evidence is everywhere in the market, from the price and contango performance to the degree of difficulty fabricators are reporting in finding metal at times to the behaviour of refiners and dealers," he said

Mr Christian said last year's mere 12 per cent rise was due to more factors than just a simple supply and demand mismatch. First, he blamed the considerably larger than declared stocks of silver, which can be used as collateral by people selling silver short.

For example, the silver in catalysts used in hundreds of ethylene oxide plants around the world is largely owned by bullion banks and dealers and leased to the chemical companies, running the plants. The companies in turn used the silver as collateral for trades.

On top of this supply, the vast majority of activity in the silver market – some 98 per cent – does not relate to physical trades.

Any price derived from supply-demand sums based solely on annual physical transactions without considering the remaining 98 per cent paper transactions did not reflect the true state of the market.

Mr Christian also commented on the efficiency with which Warren Buffett's Berkshire Hathaway group had quietly accumulated 129.7m ounces between July 1997 and January 1998.

The market is waiting eagerly to see what Mr Buffett says about this holding in his chairman's statement next month.

Dream season for kiwifruit

By Terry Hall in Wellington

The once troubled New Zealand kiwifruit industry has ended a dream global selling season giving orchardists the best returns they have had for a decade.

Sales in the past season to last month were the highest ever in revenue terms, and NZ$1.08 or 20 per cent higher a tray than a year earlier.

Doug Voss, chairman of the kiwifruit marketing board, said the success in the past season was primarily due to effective marketing, a NZ$2 a tray rise in productivity and related cost savings, changes in supply-demand equations, and a big fall in the New Zealand dollar which added NZ$80m (US$43.3m) to earnings.

The industry believes another good export season is in prospect, with new fruit growing well. The good news comes after more than a decade of problems in the industry.

Generations of New Zealanders knew kiwifruit as Chinese gooseberries – tiny berries had been brought from China last century and thrived in the New Zealand climate, where horticulturalists developed them into the larger fruit known today.

New Zealand began to market the fruit internationally from the early 1970s.

However, in the 1980s rival orchardists in North and South America, Italy, France and elsewhere began to produce the fruit and prices plummeted.

New Zealand orchardists got into severe financial difficulties in 1995, restructured their co-operative Marketing Board, and began an international marketing drive that including rebranding the fruit "Zespri".

The promotion of the renamed fruit focusing on its health benefits, such as flu prevention and slimming effects, helped boost sales.

Mr Voss said overseas markets were clamouring for fruit right up to the end of the season. There had been unexpectedly strong demand from Japan, a significant market, where prices had been much better than expected given its economic problems. Sales there had been helped by lower supplies of competing fruit.

The board had also finished selling fruit in Europe by October, a month earlier than usual. "We sold more trays, faster," Mr Voss said. This meant it had cleared supermarket shelves before the first European grown fruit had arrived. Sales to the US have also been buoyant after the Americans relaxed their anti-dumping regulations imposed in 1993 on New Zealand fruit.

The board announced preliminary figures for last season that suggest net revenue would be up 28 per cent to NZ$691m. Orchardists would receive an average payment of NZ$6.41 a tray, against NZ$5.33 a year earlier, after deducting expenses. Total sales were 60m trays, up from 48m in 1997.

Strong export demand meant New Zealand had to import kiwifruit, mainly from California, by December: they are considered essential for toppings on Pavlova desserts at most Christmas dinners.

Mr Voss said signs were extremely positive for the new season. Ample rain had produced fruit of good size after signs that drought earlier in the summer would cut production.

However total output would fall this year as many orchardists have grafted the new Zespri Gold variety, the first new kiwifruit type for years, on to vines that formerly grew traditional green berries. Preliminary consumer tests of the new variety have been highly successful in Japan.

Fruits of success: overseas markets have been clamouring to buy

Cold weather forecasts lift oil

MARKETS REPORT

By Paul Solman and Gillian O'Connor

World oil prices rose yesterday, breaking through $11 a barrel at one stage in London.

Analysts said forecasts of colder weather in the north-eastern US, the key region for heating oil consumption, buoyed the New York market, and London followed suit.

In late trading on London's International Petroleum Exchange, the benchmark April contract for Brent blend was $10.87 a barrel against Monday's close of $10.58.

On the New York Mercantile Exchange, April crude was $12.40 against Monday's close of $12.03.

Base metals prices had a better day on the London Metal Exchange but sentiment on the two bellwether metals, copper and aluminium remained gloomy.

"The consensus was that copper is heading for a surplus of 300-500,000 tonnes, and that prices could well head lower before the cutbacks required to balance the market are made", said Kevin Norrish of Barclays Capital, at a recent Copper Club meeting in New York.

Codelco, the Chilean state-owned copper giant yesterday said cash costs should fall from 45 cents per pound in the first nine months of 1998 to around 40 cents in 1999.

Analysts would have preferred news of production cuts. The US Defence Logistics Agency held its monthly sale of cobalt stocks.

In advance of the sale, MRG, the London-based cobalt trader, which bought all the cobalt on offer at last month, said it would not take part in this month's sale. The company also denied recent reports that it had been acquiring metal in an effort to gain a dominant position in the market.

A round of buying boosted robusta coffee futures on the London International Financial Futures and Options Exchange. The most actively traded May contract closed $32 higher at $1,650 a tonne.

Palm oil on Malaysia's Commex exchange was also stronger than of late, the May contract closing up M$45 at M$1,695 a tonne.

However, analysts said the prospect of plentiful supplies of oilseeds continued to weigh on the market.

Metals M&A spending up 38% in 1998

By Gillian O'Connor

Nearly $26bn was spent on mergers and acquisitions in the metals mining and refining industry world-wide in 1998. The $25.9bn total was over 38 per cent more than acquisition spending in 1997 and more than double the 1996 figure.

Raw Materials Group, the Swedish analysts that compiled the data, said most factors pointed to continued high M&A spending in the current year.

The rise in M&A activity was counterbalanced by a fall in exploration expenditure of about 30 per cent and RMG struck a familiar note in saying mergers and acquisitions had become the industry's favoured way of growth and expansion.

RMG said six factors explained the continued bid frenzy:

- ● Low metal prices and concomitant low share values made it relatively cheap to buy operating companies and mines;
- ● Restructuring was necessary to restore profitability to the industry;
- ● South Africa's political and economic changes were finally affecting the structure of the domestic mining industry;
- ● Privatisations continued, albeit at a lower level;
- ● Exploration was partly discredited by the Bre-X scandal;
- ● The general globalisation trend.

The largest deal in 1998 was made by South Africa's Anglo American "simplifying, reshuffling and streamlining its basic structure, by taking over its group partner Minorco and minorities' interests".

Anglo's deals included businesses not involved in mining, but their total value, at more than US$4.1bn, made them the only serious rival to the previous record deal: the $4bn merger of RTZ and CRA in 1996.

The second largest was the $3.8bn takeover by Alcoa, the world's largest aluminium group, of its US rival, Alumax, and third was another South African deal: the merger of Gold Fields of South Africa's gold interests with that of South African colleague Gencor.

Certain types of deals were not included in the total: transactions, such as several made by Swiss trader Glencore, for which no figures were given; deals, such as some in the former Soviet republics, where the data was suspect; and deals, such as Viag/Alusuisse, where it was not possible to disentangle the mining from the non-mining activities.

Over the past four years gold has attracted more money than any other metal. Roughly one-third of the total M&A expenditure of $74bn was on gold companies and mines. The aluminium industry went on a shopping spree in 1998, but interest in base metals has faded, with less than $1bn spent on copper last year.

Industrialised countries with a stable political situation have been the main target countries: the US, Canada and Australia. But the more than $7bn spent in South Africa was the highest amount spent in any one country in one year.

RMG said that this was "a sign of the confidence in the area that the mining industry has and also of the seriousness of its problems and structural crisis".

Raw Materials Group, PO Box 44062, S-100 73 Stockholm, Sweden. Tel: +46-8 744 0065. Fax: +46-8 744 0066

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE (Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1159-60	1184-85
Previous	1003-06	1033-34
High/low		1192/1172
AM Official	1148.5-9.5	1174-75
Kerb close		1183-84
Open int.	208,312	
Total daily turnover	68,088	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1000-05	1032-33
Previous	1003-06	1033-34
High/low		1040/1026
AM Official	995-7	1025-6
Kerb close		1035-37
Open int.	7,737	
Total daily turnover	1,410	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	517-8	521-2
Previous	514-5	516-17
High/low		522/512
AM Official	511.5-12.0	516-17
Kerb close		521-2
Open int.	37,450	
Total daily turnover	11,804	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	4810-20	4880-85
Previous	4695-705	4765-75
High/low		4900/4780
AM Official	4790-95	4855-60
Kerb close		4900-10
Open int.	72,135	
Total daily turnover	18,636	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5335-40	5270-75
Previous	5290-300	5240-50
High/low		5280/5240
AM Official	5220-25	5265-70
Kerb close		5260-65
Open int.	21,553	
Total daily turnover	8,305	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1022-23	1033-34
Previous	1011-12	1023-24
High/low		1040/1014
AM Official	1011-12	1021-22
Kerb close		1039-40
Open int.	102,410	
Total daily turnover	28,459	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1369-70	1386-87
Previous	1356-58	1382-83
High/low		1386/1383
AM Official	1366-57	1384-85
Kerb close		1391-92
Open int.	168,974	
Total daily turnover	45,566	

■ LME AM Official £/$ rate: 1.6142
LME Closing £/$ rate: 1.6125
Spot: 1.6138 3 mths: 1.6125 6 mths: 1.6128 9 mths: 1.6138

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open Int
Feb	61.75	+0.50	62.05	61.40	201	276
Mar	61.65	+0.50	62.30	61.40	8,310	27,579
Apr	62.30	+0.45	62.70	62.05	151	2,711
May	62.65	+0.45	63.20	62.25	11,754	20,657
Jun	63.05	+0.45	63.45	62.80	43	1,544
Jul	63.45	+0.45	63.80	63.30	217	7,353
Total					21,916	78,160

PRECIOUS METALS

■ LONDON BULLION MARKET (Prices supplied by N M Rothschild)

Gold (Troy oz)	$ price	£ equiv	SFr equiv
Close	286.60-287.00		
Opening	286.70-287.10		
Morning fix	286.25	176.89	250.66
Afternoon fix	286.70	177.33	251.23
Day's High	287.20-287.60		
Day's Low	286.20-286.60		
Previous close	287.10-287.50		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.18	6 months	4.00
2 months	4.17	12 months	3.88
3 months	4.14		

Silver Fix	p/troy oz.	US cts equiv.
Spot	340.45	550.50

Silver Lending Rates

1 month	5.00	6 months	4.00
2 months	5.00	12 months	4.00
3 months	5.00		

Gold Coins	$ price	£ equiv.
Krugerrand	290-294	180-182
New Sovereign	68-72	42-45

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open Int
Feb	289.7	+0.7	292.5	289.0	21	408
Mar	288.2	+0.2	-	-	-	2
Apr	289.7	+0.2	292.5	287.7	12,791	104.9k
Jun	290.6	+0.2	290.9	290.0	795	26,954
Aug	292.6	+0.2	292.6	292.3	93	6,839
Oct	294.5	+0.2	294.7	294.7	3	2,532
Total					13,724	180,393

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open Int
Apr	364.1	+5.7	367.5	373.0	2,466	13,571
Jul	376.1	+4.2	383.0	376.0	286	2,281
Oct	377.1	+2.2	378.0	378.0	1	930
Total					2,752	16,789

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open Int
Mar	348.40	-1.00	349.00	343.50	546	1,415
Jun	343.40	-	344.50	340.20	248	1,518
Sep	337.40	-	-	-	-	131
Total					794	3,178

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open Int
Feb	546.0	-	546.0	546.0	-	-
Mar	546.0	-	555.0	544.0	23,873	32,960
May	548.6	-	559.5	545.5	14,474	32,252
Jul	547.7	-0.4	557.5	546.5	1,530	13,305
Sep	544.3	-0.5	551.5	551.5	10	4,313
Dec	540.3	-2.0	551.0	543.0	127	7,787
Total					40,665	97,364

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open Int
Apr	12.43	+0.36	12.57	12.12	53,321	127.9k
May	12.59	+0.38	12.68	12.25	13,069	65,554
Jun	12.65	+0.33	12.78	12.41	3,847	46,067
Jul	12.77	+0.32	12.86	12.59	3,428	28,492
Aug	12.93	+0.35	12.93	12.72	866	20,102
Sep	12.97	+0.27	12.93	12.81	1,013	14,051
Total						118,407 534,099

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open Int
Apr	10.86	+0.28	11.03	10.61	28,321	74,118
May	11.01	+0.25	11.16	10.78	8,541	44,099
Jun	11.17	+0.25	11.32	10.95	5,654	30,322
Jul	11.33	+0.26	11.40	11.12	1,394	15,364
Aug	11.50	+0.27	11.50	11.27	344	6,092
Sep	11.49	+0.10	11.53	11.40	994	3,300
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open Int
Mar	31.85	+0.96	32.25	31.00	16,702	27,747
Apr	32.30	+0.82	32.70	31.45	10,646	36,776
May	32.85	+0.87	33.30	32.27	4,969	18,440
Jun	33.60	+1.02	33.80	33.00	1,198	17,832
Jul	34.30	+1.07	34.40	33.80	415	12,084
Aug	34.86	+0.57	-	-	60	10,232
Total						36,814 167,291

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open Int
Mar	99.25	+3.75	100.00	96.00	12,073	31,003
Apr	99.25	+3.75	100.25	96.50	5,851	23,839
May	100.25	+3.50	101.00	98.00	1,673	12,249
Jun	101.75	+2.75	102.50	100.00	765	11,270
Jul	103.25	+2.75	103.25	103.00	351	4,855
Aug	106.50	+3.00	106.50	105.00	55	5,410
Total						20,800 128,137

■ NATURAL GAS IPE (1,000 therms; pence per therm)

	Sett price	Day's change	High	Low	Vol	Open Int
Mar	9.440	-0.010	9.450	9.440	375	4,335
Apr	9.290	-0.040	9.240	9.240	10	2,725
Total					385	27,245

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

	Latest price	Day's change	High	Low	Vol	Open Int
Mar	1.710	+0.004	1.725	1.665	49,415	38,573
Apr	1.715	+0.013	1.725	1.680	29,184	54,302
May	1.745	+0.005	1.755	1.715	5,672	19,160
Jun	1.780	+0.002	1.785	1.750	2,522	17,161
Jul	1.820	+0.002	1.820	1.790	1,829	18,511
Aug	1.880	-0.004	1.865	1.835	1,512	12,818
Total						93,660 297,057

■ UNLEADED GASOLINE NYMEX (42,000 US galls; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open Int
Mar	35.35	+0.65	35.75	34.50	16,677	23,308
Apr	38.35	+0.76	38.70	37.60	10,135	34,462
May	39.45	+0.79	39.80	39.10	3,044	18,511
Jun	40.25	+0.76	40.50	39.90	1,482	17,160
Jul	40.90	+0.81	41.00	40.65	267	15,830
Aug	41.25	+0.76	41.45	41.45	202	3,577
Total						32,247 122,854

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open Int
Mar	71.60	+1.20	71.50	71.25	14	218
May	73.85	+1.10	73.40	72.50	277	3,365
Jul	75.85	+1.10	75.75	74.50	168	991
Sep	74.10	+1.10	-	-	-	183
Nov	76.00	+1.25	76.00	74.50	277	2,280
Jan	78.00	+1.25	77.25	76.50	19	421
Total					788	7,741

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open Int
Mar	251.75	-	254.75	251.25	14,986	32,652
May	261.75	-0.50	265.00	261.50	7,677	37,742
Jul	271.75	-	275.00	271.50	10,029	47,531
Sep	282.50	+0.50	284.50	282.00	395	4,264
Dec	295.25	+0.25	298.00	295.00	535	6,285
Mar	305.00	-	-	-	300	1,177
Total					34,110	129,843

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open Int
Mar	215.00	+1.00	215.50	214.00	39,238	84,591
May	220.00	+0.25	221.50	219.00	38,613	102,961
Jul	225.50	+0.75	226.50	225.00	13,211	87,454
Sep	232.25	+0.50	233.25	232.00	1,005	20,317
Dec	240.25	+0.50	241.25	239.75	5,710	52,245
Mar	248.00	+0.50	248.75	247.50	292	6,484
Total						98,859 398,118

■ BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open Int
Mar	73.55	-0.75	74.30	74.30	5	94
May	74.75	-0.75	-	-	-	188
Sep	73.75	+0.75	-	-	-	35
Nov	76.00	+0.75	76.00	75.50	15	255
Jan	78.00	+0.75	-	-	-	20
Total					20	602

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open Int
Mar	474.00	-	478.50	474.00	41,865	33,256
May	478.25	-	482.50	478.00	24,689	45,806
Jul	484.75	+0.25	489.00	484.00	13,210	38,354
Aug	487.50	+1.50	491.25	487.00	2,430	12,259
Sep	489.75	+1.25	493.50	489.00	633	4,757
Nov	498.50	-	501.00	496.00	4,445	23,684
Total						87,371 169,046

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open Int
Mar	18.21	+0.32	19.34	18.95	15,506	22,457
May	18.52	+0.46	19.58	19.13	15,891	43,069
Jul	19.76	+0.45	19.88	19.43	5,347	27,006
Aug	19.92	+0.43	20.00	19.60	1,364	5,964
Sep	20.05	+0.44	20.18	19.70	611	5,006
Oct	20.17	+0.45	20.20	19.90	350	3,543
Total						41,603 132,233

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open Int
Mar	128.9	-2.0	129.5	126.7	15,681	24,739
May	129.7	-2.0	129.2	126.5	12,254	27,043
Jul	129.3	-1.6	131.5	129.0	5,692	33,837
Aug	130.6	-1.6	130.0	130.5	1,226	9,311
Sep	132.2	-1.8	134.0	132.1	673	5,364
Oct	133.6	-1.2	135.3	133.8	54	3,503
Total						35,865 127,347

■ POTATOES LIFFE (20 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open Int
Mar	222.0	+2.0	-	-	-	-
Apr	282.0	+8.0	284.0	278.0	44	2,007
May	320.0	+18.0	320.0	318.0	4	10
Jun	330.0	+16.0	-	-	-	-
Nov	90.0	-	-	-	-	-
Total					48	2,083

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open Int
Feb	865	+10	885	860	4	174
Mar	902	+28	1000	980	88	287
Apr	1000	+5	1005	1000	22	677
May	880	+10	880	880	14	614
Jul	1070	+5	-	-	-	373
Total					108	2,463

	Close	Prev
BFI	859	859

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open Int
Mar	925	+1	929	920	3,317	17,650
May	916	+2	922	909	2,596	45,778
Jul	932	+4	937	924	133	13,338
Sep	947	+3	932	940	320	29,989
Dec	967	+3	967	957	6	25,138
Mar	987	+3	988	980	91	17,220
Total						6,659 153,797

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open Int
Mar	1305	+5	1307	1293	232	1,274
May	1317	+8	1318	1295	4,055	35,139
Jul	1341	+9	1341	1327	772	11,456
Sep	1366	+8	1365	1354	54	8,905
Dec	1405	+9	1402	1397	435	6,347
Mar	1442	+12	1435	1433	100	6,293
Total						5,648 67,985

■ COCOA (ICCO) (SDR's/tonne)

	Price	Prev. day
Feb 22		
Daily	1044.86	1049.19

■ COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open Int
Mar	1718	+34	1732	1673	2,444	14,076
May	1650	+28	1662	1605	6,134	20,546
Jul	1592	+23	1602	1565	1,020	5,788
Sep	1629	+23	1640	1590	24	2,350
Nov	1623	+23	1627	1592	40	882
Jan	1611	+23	1580	1576	60	310
Total					9,725	44,127

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open Int
Mar	105.90	+3.10	109.00	102.25	608	2,338
May	108.90	+3.15	110.50	103.00	4,578	24,166
Jul	107.85	+2.70	110.50	104.30	488	6,119
Sep	109.30	+2.60	110.75	105.60	164	3,490
Dec	110.80	+2.85	112.50	107.40	43	1,673
Mar	114.35	+3.35	110.50	110.50	21	542
Total						5,882 38,288

■ COFFEE (ICO) (US cents/pound)

	Price	Prev. day
Feb 22		
Comp. daily	90.78	91.82
15 day average	92.49	92.59

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open Int
May	219.1	-0.1	220.0	217.5	1,348	23,290
Aug	212.3	-1.0	213.8	211.3	388	10,791
Oct	208.2	-0.7	207.1	205.1	734	7,722
Dec	208.2	-1.0	209.0	207.1	135	1,812
Mar	210.7	-1.2	211.5	210.1	221	2,579
May	212.7	-0.9	212.9	211.8	285	934
Total						3,008 46,761

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open Int
Mar	6.79	-0.02	6.82	6.58	16,830	32,272
May	6.36	+0.06	6.36	6.20	11,660	96,283
Jul	6.16	-0.06	6.22	6.12	3,296	39,464
Oct	6.50	-0.06	6.57	6.39	2,179	23,064
Mar	6.94	-0.11	7.09	6.92	725	15,201
May	6.89	-0.11	7.02	7.02	26	2,446
Total						34,484 182,642

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open Int
Mar	63.25	+0.67	63.50	62.90	2,687	3,976
May	59.96	-0.44	57.26	56.40	3,440	33,820
Jul	58.08	-0.86	57.75	56.65	1,453	16,164
Oct	58.96	-0.80	58.10	57.60	70	1,884
Dec	58.19	-0.54	58.80	58.01	2,073	15,948
Mar	59.25	-0.50	59.00	58.25	57	1,911
Total						11,924 74,563

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open Int
Mar	91.95	-0.15	93.75	91.25	3,374	7,651
May	85.50	-1.05	85.20	85.20	3,281	13,222
Jul	85.90	-1.05	87.00	85.00	482	4,476
Sep	85.30	-1.05	85.50	84.75	157	1,921
Nov	85.35	-0.85	85.25	84.20	144	1,268
Jan	85.85	-0.80	87.25	85.75	102	881
Total						7,558 29,363

VOLUME DATA

Open Interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open Int
Feb	64.450	+0.300	64.525	64.000	1,253	4,813
Apr	67.625	+1.175	67.700	66.425	7,804	52,278
Jun	65.575	+0.775	65.600	64.725	3,876	28,200
Aug	64.325	+0.575	64.450	63.700	1,846	14,140
Oct	65.850	+0.425	66.050	65.300	571	8,080
Dec	66.950	+0.425	67.100	66.450	144	3,760
Total					14,871	111,888

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open Int
Apr	45.250	-0.550	46.150	45.150	3,725	17,759
Jun	55.275	-0.100	55.650	55.700	2,180	9,838
Jul	57.200	-	57.300	56.900	428	4,107
Aug	57.575	-0.025	57.800	57.200	144	3,591
Oct	56.000	-0.050	56.225	55.675	340	4,460
Dec	55.975	-	56.200	55.800	81	2,043
Total					6,805	41,857

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open Int
Feb	52.600	-0.150	53.500	51.500	148	123
Mar	52.800	+0.250	53.700	51.350	955	2,782
May	54.500	+0.175	55.700	53.100	300	1,570
Jul	55.700	+0.300	56.000	54.300	32	894
Aug	54.800	-0.180	55.950	54.000	20	241
Total					1,486	5,300

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME

	Apr	Jul	Apr	Jul
1100	n/a			
1150	n/a			
1200	n/a			

■ COPPER (Grade A) LME

	Apr	Jul	Apr	Jul
1350	n/a			
1400	n/a			
1450	n/a			

■ COFFEE LIFFE

	May	Jul	May	Jul
1750	142	80	1	30
1800	92	50	1	50
1700	43	30	1	80

■ COCOA LIFFE

	May	Jul	May	Jul
900	44	62	25	30
925	31	48	35	41
950	23	38	57	56

■ BRENT CRUDE IPE

	Apr	Mar	Apr	Mar
1000	-	-	-	45
1050	36	57	-	-
1100	15	41	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel) +or-

Dubai	$10.27-0.37	+0.28
Brent Blend (dated)	$10.54-0.60	+0.38
Brent Blend (Apr)	$10.84-0.90	+0.33
W.T.I.	$12.38-2.42z	+0.32

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$116-118	+1
Gas Oil	$101-103	+3.5
Heavy Fuel Oil	$55-57	+1
Naphtha	$94-95	+2
Jet fuel	$114-117	+3
Diesel	$106-110	+4

■ NATURAL GAS (Pence/therm)

Bacton (Mar)	9.44-9.45	+0.005

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

Gold (per troy oz)♣	$287.15	-0.20
Silver (per troy oz)♣	550.50c	-7.00
Platinum (per troy oz.)	$361.00	+6.50
Palladium (per troy oz.)	$348.00	-4.00
Copper	67.0c	
Lead (US prod.)	43.0c	
Tin (Kuala Lumpur)	19.42r	-0.09
Tin (New York)	248.5	+1.0
Cattle (live weight)	93.21p	-2.57*
Sheep (live weight)	87.11p	-3.52*
Pigs (live weight)	56.30p	+0.19*
Lon. day sugar (raw)	$178.80	+1.80
Lon. day sugar (wte)	$211.50	+1.70
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£108.00	
Wheat (US Dark North)	Unq	
Rubber (Apr)♥	47.00p	+1.00
Rubber (May)♥	47.50p	+1.00
Rubber (KL RSS No1)	257.00r	+2.00
Coconut Oil (Phil)§	715.0	
Palm Oil (Malay.)§	397.50	
Copra (Phil)§	445.0y	
Soyabeans (US)	148.5y	
Cotton Outlook'A' index	55.90	
Wooltops (64s Super)	388p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. y Mar/Apr. z Apr. § Cif Rotterdam. ♣ Bullion market close. * Change on week. ♥ London physical.

FUTURES DATA

All futures data supplied by CMS.

Tea from the Tea Brokers' Association Mombasa: There was less demand at easier rates. Except for a few best BP1s which were dearer, other brighter sorts were irregularly easier by 5 to 25 cents and mediums down by 4 to 9 cents. Lower mediums and plainer sorts eased by about 5 to 10 cents. Prices for the best PF1s were substantially lower with brighter and mediums sorts generally easier by about 6 to 12 cents. Lower mediums and plainer sorts declined by about 5 to 16 cents and were sometimes neglected. Prices for the best PDUSTs were markedly lower with brighter and medium categories easier about 6 to 15 cents.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Feb 23	Feb 22	month ago	year ago
1428.2	1427.2	1454.0	1710.2

■ CRB Futures (Base: 1967 = 100)

Feb 22	Feb 19	month ago	year ago
184.85	185.89		

■ GSCI Spot (Base: 1970 = 100)

Feb 22	Feb 19	month ago	year ago
131.19	131.41	135.25	164.24

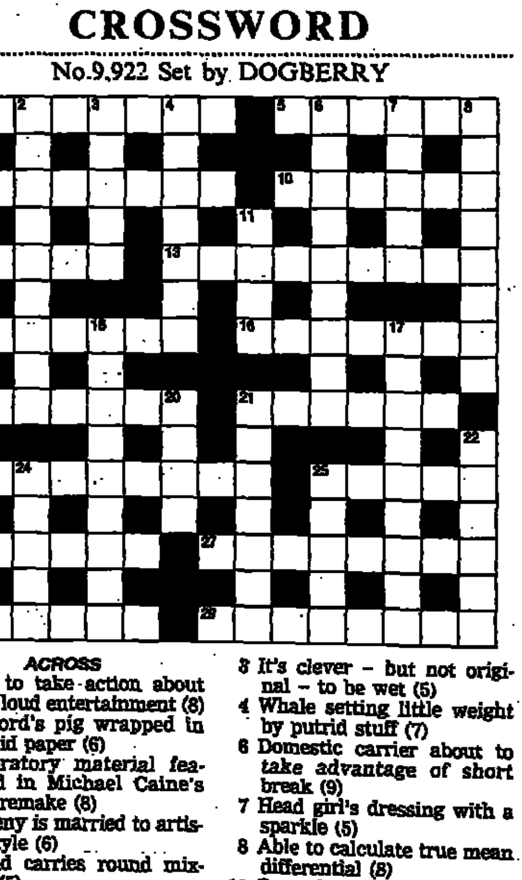
LME WAREHOUSE STOCKS (tonnes)

Aluminium	-150	to	852,000
Aluminium alloy	-940	to	88,000
Copper	+25	to	659,775
Lead	-	to	137,050
Nickel	-1,200	to	61,806
Zinc	-500	to	398,325
Tin	-30	to	7,395

JOTTER PAD

CROSSWORD

No.9,922 Set by DOGBERRY



ACROSS

1 Vote to take action about very loud entertainment (8)
5 Warlord's pig wrapped in tabloid paper (6)
9 Laboratory material featured in Michael Caine's first remake (8)
10 Progeny is married to artistic style (6)
12 Friend carries round mixture (5)
13 Entrepreneur operated in cinema? (9)
14 Returned bird to America with ill-will (6)
16 Support the errant forecaster (7)
19 Amateur soldiers imprisoning professionals' young man for breach of faith (7)
21 Simple fashions displayed by model (6)
23 Frantic pederast touring Spain (9)
25 Dramatic song arranged for unlimited descant (5)
26 Greener Dickensian? (6)
27 Wind muffling one's defective hearing (8)
28 Drink that's fortified Bashful when about to commit a sin (6)
29 Ancient Chinese turned in and had internal conflict (8)

DOWN

1 So unprofessional to turn up at the party (6)
2 Loose shaft not regularly employed (9)
3 It's clever – but not original – to be wet (5)
4 Whale setting little weight by putrid stuff (7)
6 Domestic carrier about to take advantage of short break (9)
7 Head girl's dressing with a sparkle (5)
8 Able to calculate true mean differential (8)
11 Part of a barrel a bear gets put over (4)
15 Arms-bearer to perfume letter received by queen (9)
17 Fit? Christ, yes! (9)
18 Diligent Don Juan acquires debts (8)
20 Close tight (4)
21 Satisfying the assembly (7)
22 Friend takes cover, having blenched (6)
24 Pops up on east ridge (5)
25 In Paris a tantalising source of temptation (5)

Solution 9,921

	Q	U	I	C	K	O	N	T	H	E	D	R	A	W
S		N		I		B		O		V		E		A
T	U	D	O	R		S	A	U	T	E	R	N	E	S
A		E		C		T		C		N		A		H
N	A	R	R	A	T	E		H	U	M	B	L	E	D
Z		L				T				O				A
A	M	I	S	S		R	O	T	U	N	D	I	T	Y
		N		A		I		H		E		R		
S	P	E	C	T	A	C	L	E		Y	A	R	N	S
E				U				M				E		O
D	O	G	T	R	O	T		I	L	L	E	G	A	L
A		H		A		U		K		U		U		E
T	R	A	T	T	O	R	I	A		C	O	L	O	N
E		N		E		I		D		I		A		T
S	T	A	N	D	I	N	G	O	R	D	E	R	S	

For solutions to today's crossword call 0891 430060. Calls cost 50p a minute.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

CAYMAN ISLANDS (REGULATED)(**)

GUERNSEY (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

IRELAND (FSA RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

Metals M&A spending up 38% in 1998

The ideal benchmark for European index funds. STOXX

CROSSWORD

FT MANAGED FUNDS SERVICE

Offshore Funds and Insurances

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

LUXEMBOURG (FSA RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
Allied Domecq	♣	495	-3½	646	385	3,984	5.4	12.3
Bulmer (HP)		283½	—	390	270½	–	6.6	12.7
Burn Stewart		12½	—	39½	7	38	–	–
Diageo	♣	669½	+1½	795	476	4,830	3.0	20.0
Glenmorangie A	†	715	+2½	980	635	–	2.5	19.4
B	†	627½	—	860	610	–	1.1	44.9
Highland		258½	—	325	225	29	4.7	11.5
5¼pc Cr Sb Bd		97¾	—	105½	90½	–	5.6	–
Kirin Y		741	+25	814½	457¼	–	0.8	50.7
Merrydown		27	+½	54½	18½	16	–	♦
Seagram C$		£28	+½	£30½	£14	–	0.9	–

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD PRODUCERS

FOOD PRODUCERS - Continued

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Continued

HOUSEHOLD GOODS & TEXT

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

[illegible]

Net asset values supplied by Lipper as a guide only. See guide to London Share Service

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Continued

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Continued

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Continued

[illegible]

TELECOMMUNICATIONS

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

TRANSPORT - Continued

[illegible]

WATER

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

[illegible]

TRADED INDEX SECURITIES

[illegible]

AIM

Alternative Investment Market

The Alternative Investment Market, designed primarily for small companies, is regulated by the London Stock Exchange but has less demanding rules than the SE Official list.

[illegible]

AIM - Continued

[illegible]

GUIDE TO LONDON SHARE SERVICE

[illegible]

FT Free Annual Reports Club

[illegible]

FT Cityline

[illegible]

The FT web site

[illegible]

LONDON STOCK EXCHANGE

Faltering Footsie heeds Greenspan warning

MARKET REPORT
By Steve Thompson, UK Stock Market Editor

A supercharged performance by Wall Street overnight, a batch of highly encouraging company results from three of the *FTSE 100's* leading stocks, and talk of more takeovers in the pipeline drove London's equity market near to record intra-day and closing highs yesterday.

But the UK market's benchmark index faltered on the brink of both records as Wall Street ran into a flurry of profit-taking after some sharp comments on US stock price valuations by Alan Greenspan, chairman of the US Federal Reserve, in his biannual Humphrey-Hawkins testimony to the Senate's banking committee.

In his testimony, one of the most closely scrutinised economic events of the financial year, Mr Greenspan reminded investors about "rising stock prices", insisting that a sudden decline in the market could damage the US economy's health.

Dealers in London, on alert for any inklings of a Greenspan market "profit warning", similar to his "irrational exuberance" line which saw the stock market plunge in 1996, absorbed his latest comments. "The knee-jerk reaction by the market was not too bearish, but you never know, these things tend to impact later in the session," one dealer said.

At the close of a tense session, the FTSE 100 was 85.3 higher at 6,155.2. At its best the index came within 10.4 of its previous intra-day record of 6,196.6, which it reached on January 8 this year.

Its previous closing high was 6,179.0, was attained on July 20 last year, just before the near collapse of Long Term Capital Management, the US hedge fund.

London's other equity market indices remained in positive ground, but looked slightly vulnerable as the session wore on. The FTSE 250 ended the day a net 5.7 ahead at 5,186.4, having hit a high of 5,205. The rise in the market took the price earnings ratio on the non-financials index back up to an all-time high of 24.3.

The FTSE SmallCap also made good progress, hitting a session best of 2,265.1, before easing back to close a net 7.8 firmer at 2,263.4.

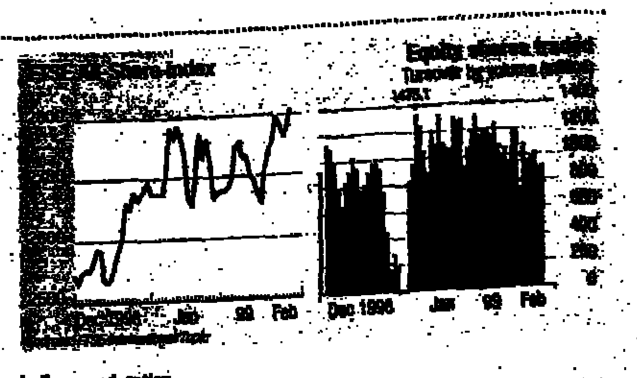
Noting the comments from Alan Greenspan, Bob Semple, UK stock market strategist at BT Alex Brown, the stockbroker, said: "It is a reminder of the worries about Wall Street overvaluation. And there is still a worry about first-quarter US economic growth."

Noting the bull points for the UK market, Mr Semple pointed to the good results in the current reporting season and the potential for bids. But he also pointed out that the good corporate news came from stocks such as Unilever and BT.

"Most of the industrials have still to report. Let's wait and see how they go," he said.

Before the US news, the UK market had raced higher in the wake of the Dow Jones Industrial Average's 212-point surge, which took the average to within 100 points of its January 8 peak.

The market moved into a higher gear as the institutions moved in to buy the leaders in the wake of numbers from National Westminster, which carried on the good news from the banking sector, that had been interrupted by HSBC on Tuesday, and the well-received dividend from Unilever.



Indices and ratios

FTSE 100	6155.2	+85.3	FT 30	3722.9	+35.6
FTSE 250	5186.4	+5.7	FTSE Non-Fins p/e	24.27	24.20
FTSE 350	2910.4	+34.7	FTSE 100 Fut Mar	6157.0	+51.0
FTSE All-Share	2812.38	+32.41	10 yr Gilt yield	4.51	4.62
FTSE All-Share yield	2.73	2.76	Long gilt/equity yld ratio	1.66	1.64

Best performing sectors

1 Banks: Retail +2.2
2 Pharmaceuticals +2.2
3 Oil Integrated +1.8
4 Building Matls & Merchs +1.8
5 Household Goods & Texts +1.7

Worst performing sectors

1 Engineering: Vehicles -1.9
2 Paper, Packg & Printing -1.1
3 Distributors -1.0
4 Oil Exploration & Prod -0.5
5 Diversified Industrials -0.4

Centrica attracts interest

COMPANIES REPORT
By Peter John, Joel Kibazo, Martin Brice and Simon Bernholt

Prospects of the first ever *dividend from Centrica*, which reports today, saw switching out of BG yesterday.

Figures from the latter were above the range of analysts' forecasts and the gas supplier made comments that suggested to several analysts it was not interested in bidding for either Lasmo or Enterprise.

In addition, BG said it would be returning capital to shareholders later in the year. HSBC estimates that £1.5bn will be dished out, a sum which represents 40p a share.

The shares were up 25 at best, but the gains dwindled as dealers reported a shift of interest into Centrica. The gas distributor is expected to produce strong second-half figures, and dealers are hoping for a 1.5p maiden ordinary dividend plus a 5p special. Centrica was steady at 122p.

3i, the blue-chip venture capitalist, topped the list of Footsie performers as a recommendation from Warburg Dillon Read highlighted a potential boost to valuations. The company's largest holding is in a computer services group called Morse Holdings. 3i invested in a 55 per cent stake in 1995 for £46m and Morse expects to raise £350m from a flotation this spring.

Warburg says the float is worth 15p a share to 3i and has issued a note upgrading its net asset value for 3i by up to 20p to 580p. The broker pointed out that the shares had been oversold ahead of a possible issue of shares in connection with the bid for Electra Investment Trust and deserved a rebound.

A cautious trading *statement for the current year* cast a shadow over Anglo-Dutch consumer products giant Unilever, which yesterday announced plans to return £5bn to shareholders.

The company said the economic outlook for 1999 was uncertain and, although it assumes good economic growth in north America, it expects Europe to grow more slowly, while an early recovery in south-east Asia and Latin America "cannot be relied upon".

Unilever, which revealed full-year profits of £3.08bn, at the top end of market expectations, said it was to return £5bn to shareholders via a special dividend of 66.13p per ordinary share. Having moved ahead on confirmation of the special dividend, worries about the current trading outlook together with general profit-taking saw the shares decline a penny to 624½p after busy trade of 24m.

"Although the £5bn figure was well ahead of expectations, we were all aware that something was on the cards, so it's not surprising that the concerns about the current outlook are at the forefront of people's minds," said one analyst.

Speculation that another *Anglo-Dutch group, Royal Dutch/Shell*, would follow the lead set by Unilever and return funds to shareholders helped boost trading in Shell Transport.

The shares appreciated 6¼ to 335p, with an improvement in international oil prices said to have enhanced sentiment in the stock.

Mobile telephones group Orange was in demand ahead of the release of full-year figures tomorrow. The shares hardened 15 to 955½p in volume of 4.2m.

SG Securities is a buyer of the shares and expects the group to report a loss of £110m for the year to December 1998. It predicted a much smaller loss of £20m for this year.

The team at SG suggested Orange may be looking to France for corporate activity and believes the company may already be in talks with Cable and Wireless, which has a 20 per cent stake in French group Bouygues. C&W shares fell 16½ to 885p.

Well-received figures from National Westminster, especially after the disappointment from HSBC on Monday, saw the shares rise 45 to *£13.19. WestLB* Panmure issued a £15 price target on the stock.

Relief at review

The latest review on pool pricing from the electricity regulator came out yesterday and was greeted with relief. Analysts had fretted that the new regulator might crack down hard on the generators, who had sent electricity pool prices spiralling higher. There was even talk of a price cap.

However, the proposals yesterday represented "bark but not bite" according to one dealer. British Energy, considered the company most likely to be hard hit, rebounded 25½ to 670½p. PowerGen lifted 6¼ to 796p.

ARM Holdings was one of the better FTSE 250 performers as it gained 55 to £20.40, following a presentation by the company at house broker ABN-Amro. The company was said to have highlighted the potential for its chips in the automotive market during the next five years. The shares were at 750p last year.

Positive broker comment following a trip by a group of analysts to see its Australian operations was said to be behind the rise of almost 4 per cent by Williams. The stock closed up 12½ at 368p, well above its low of 291p touched last month but below the high of 486p reached last year.

Drew Scientific, the health care group, rose 2½ to 97½p after announcing that American regulators had approved its new cardiovascular disease test.

Positive results on Monday and press coverage rallied shares in Aim-quoted restaurant group BGR from their recent lows, closing 20 higher at 150p.

Rumours of consolidation among tour operators pushed the leisure sector forward. There was heavy trading in First Choice, up 9 to 151p, Airtours, up 10 to 472½p, and Eurocamp, up 6 to 236p.

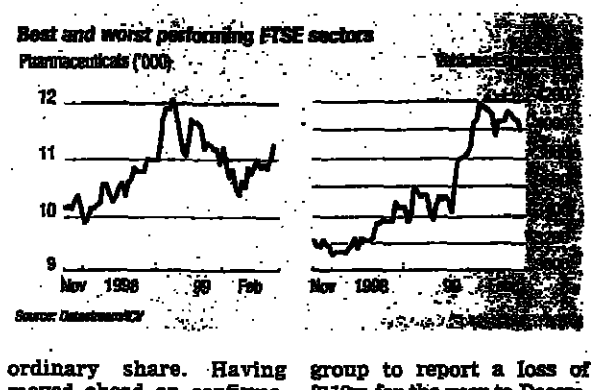
Allied Leisure, up 2 to 27½p, and European Leisure, up 1¾ to 70p, rose after confirming long-rumoured merger talks.

Leisure company BS Group rose 25 to 145p as the company announced it was in talks about an offer for the group.

Institutional trading sent Rank 4 higher to 239p on volume of 5.8m as speculation over the future of the group continued.

A statement by Phillips & Drew that it owns 13.5 per cent of David S. Smith, down 6 to 108½p on volume of 1.5m, fuelled more talk of consolidation in the paper and packaging sector. The fund manager also owns a large stake in Rexam, which fell 2 to 193p on volume of 1.7m.

Best and worst performing FTSE sectors



Source: Datastream/ICV

FT 30 INDEX

	Feb 23	Feb 22	Feb 19	Feb 18	Feb 17	Yr ago	*High	*Low
FT 30	3722.9	3687.3	3670.3	3698.50	3700.5	3478.3	4004.8	3720.6
Ord. div. yield	2.78	2.81	2.82	2.80	2.81	3.12	4.22	2.72
P/E ratio net	22.85	23.88	23.76	23.82	23.69	22.76	25.41	15.80
P/E ratio nil	23.71	23.76	23.88	23.82	23.70	N/A	25.19	15.71

FT 30 since compilation: high 4004.8 [illegible] low 49.4 [illegible] Base Date: 1/7/35.

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
3697.3	3745.6	3733.9	3731.7	3736.4	3743.2	3724.4	3719.2	3749.5	3687.3

STOCK MARKET TRADING DATA

	Feb 23	Feb 22	Feb 19	Feb 18	Feb 17	Yr ago
SEAQ bargains	5,983	79,254	85,289	79,463	83,655	n/a
Equity turnover (£m)†	-	n/a	3470.8	3321.1	4268.0	n/a
Equity bargains†	-	n/a	64,257	59,817	70,160	n/a
Shares traded (mil)†	-	n/a	851.7	775.8	1022.7	n/a
Total market bargains†	-	n/a	67,184	78,941	85,669	
Total turnover (£m)†	-	n/a	4586.7	4512.1	5904.7	
Total shrs traded (mil)†	*222.4	n/a	1085.2	998.8	1252.6	
Tradepoint turnover (£m)	29.7	15.0	25.8	27.7	32.0	25.9
Tradepoint shrs traded(m)	12.2	7.8	8.2	10.7	10.7	6.2

†Excluding intra-market and overseas turnover. [illegible]

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	1,052	Total Highs	70	Total contracts	34,271
Total Falls	446	Total Lows	37	Calls	19,636
Same	1,355			Puts	14,735

Feb 23 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	6150.0	6157.0	+78.0	6189.0	6100.0	29420	170401
Jun	6178.0	6196.0	+79.0	6187.0	6178.0	502	22002
Sep	-	6239.0	+60.0	-	-	0	2053

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	-	5173.0	-6.0	-	-	0	2290
Jun	-	5182.0	-4.0	-	-	0	7237

■ FTSE 100 INDEX OPTION (LIFFE) (*6155) £10 per full index point — Feb 23

	6000 C	6000 P	6050 C	6050 P	6100 C	6100 P	6150 C	6150 P	6200 C	6200 P	6250 C	6250 P	6300 C	6300 P	6350 C	6350 P
Mar	260	119	245½	133½	197	141½	172	164	146	180	128	215½	104½	245½	86½	276
Apr	381	179	329½	180½	290½	220	259½	241	228	261½	199	284½	176½	313	154½	342
May	492	252½	400½	273	369½	293	338	314	307	335	276	356½	262½	384½	239	424
Jun	467½	308½	463	327	433	345½	403	364½	373	383½	342½	403	318½	427	294½	454
Dec†	787½	522			730½	558			668	594½			663	632		

Calls 1,267 Puts 848

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point — Feb 23

	5975 C	5975 P	6025 C	6025 P	6075 C	6075 P	6125 C	6125 P	6175 C	6175 P	6225 C	6225 P	6275 C	6275 P	6325 C	6325 P
Mar	282	100½	247	115½	216	134½	184½	152½	162½	176½	224½	192	168	220½	89½	248
Apr	378	177	338½	192½	307	212½	277½	233	250½	255½	224½	279	201½	305½	178½	330
May	463½	246½	421½	264½	391	284	362	305	334	327	307½	350½	282	375	260	401
Jun			482½	315½			420	351½			383	382½			311½	435½
Sept			635½	428			576½	486			523½	510			486½	548

Calls 8,823 Puts 6,113 * Underlying index value. Premiums shown are based on settlement prices.
† Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1998/9 High	1998/9 Low	Stock	Close price p	+/-	Net div	Div. cov.	Grs yld	P/E net
–	F.P.	15.0	100	95	AIM VCT	100		-	-	-	-
–	F.P.	–	95½	88	Abbey Natl Dublin	88		-	-	-	-
–	F.P.	–	102½	101½	Acorn Income Fd	101½		-	-	-	-
§	F.P.	38.0	123	116½	BFS O'seas Inc	120		Nr12.65	-	10.5	-
§	F.P.	3.32	103	56	Do Cap	98		-	-	-	-
–	F.P.	15.0	100	90	Close Bros Dev VCT	100		-	-	-	-
–	F.P.	80.5	103½	100½	Enhanced Zero Tst	100½	-1	-	-	-	-
–	F.P.	38.2	7½	7	Gander Properties	7½		-	-	-	-
–	F.P.	14.5	29½	29½	Golden Prospect	29½		-	-	-	-
§	F.P.	47.0	100½	94½	Jupiter Enhanced	95½	+½	-	-	-	-
§	F.P.	47.5	110	103¾	Do Zero Div Prf	107¼	+¼	-	-	-	-
–	F.P.	5.37	109½	107½	†NBA Quantum	109½		W-	-	-	11.2

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1998/99 High	1998/99 Low	Stock	Closing price p	+or-
40	Nil	25/2	¾pm	¼pm	Ambient Media	¾pm	
10	Nil	16/3	1¼pm	1¼pm	Brancote	1¼pm	
78	Nil	10/3	25pm	20pm	Peptide Therap	21pm	

per premium.

FTSE GOLD MINES INDEX

	Feb 22	% chg on day	Feb 19	Year ago	Gross div yield %	Total return	52 week High	52 week Low
Gold Mines Index (20)	903.77	-0.4	907.56	1012.57	2.03	910.24	1351.57	761.58
■ Regional Indices								
Africa (8)	964.08	0.0	964.38	1027.46	4.29	978.18	1488.04	765.63
Australasia (9)	1129.72	-1.0	1141.25	1293.16	2.72	1141.75	1600.53	815.93
Americas (11)	850.58	-0.4	854.30	980.52	0.85	853.18	1317.41	847.69

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	£ Stlg Feb 23	Day's chge%	Euro index	£ Stlg Feb 22	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	6155.2	+1.4	7028.8	6069.9	5651.0	2.59	2.29	1.96	24.68	11.54	2730.45
FTSE 250	5186.4	+0.1	5922.5	5180.7	5041.9	3.21	2.79	2.15	18.10	10.68	2261.00
FTSE 250 ex Inv Tr	5204.9	—	5943.6	5206.1	5069.0	3.35	2.91	2.23	16.73	11.21	2279.32
FTSE 350	2910.4	+1.2	3323.4	2875.7	2695.6	2.68	2.36	1.99	23.39	5.54	2638.00
FTSE 350 ex Inv Tr	2917.1	+1.2	3331.1	2882.6	2700.8	2.69	2.38	2.01	23.15	5.60	1358.82
FTSE 350 Higher Yield	2694.8	+1.3	3077.3	2659.5	2874.8	3.73	3.26	1.88	17.85	3.81	2097.12
FTSE 350 Lower Yield	3139.0	+1.1	3584.5	3105.2	2732.8	1.67	1.58	2.24	33.45	7.47	2304.10
FTSE SmallCap	2263.36	+0.3	2584.59	2255.56	2442.34	3.80	2.99	2.00	17.39	5.19	2003.75
FTSE SmallCap ex Inv Tr	2232.36	+0.2	2549.19	2226.93	2434.87	3.81	3.17	2.11	15.51	4.98	1998.64
FTSE All-Share	2812.38	+1.2	3211.53	2779.97	2626.01	2.73	2.39	1.99	23.01	5.41	2589.36
FTSE All-Share ex Inv Tr	2823.29	+1.2	3223.98	2791.03	2633.61	2.74	2.41	2.01	22.69	5.46	1336.89
FTSE Fledgling	1237.12	+0.5	1412.70	1231.33	1398.20	3.99	3.26	1.39	22.49	2.31	1395.75
FTSE Fledgling ex Inv Tr	1249.50	+0.5	1426.83	1243.61	1358.57	4.55	3.72	1.44	19.07	2.43	1417.70
FTSE All-Small	1282.90	+0.4	1464.97	1278.14	–	3.68	3.05	1.86	18.26	2.83	1449.74
FTSE All-Small ex Inv Tr	1290.10	+0.3	1473.20	1286.37	1406.23	3.96	3.28	1.98	16.12	2.80	1468.90
FTSE AIM	823.7	+0.2	940.6	821.9	1004.0	1.36	1.11	0.97	80.00†	0.75	786.68

■ *FTSE* Actuaries Industry Sectors

	£ Stlg Feb 23	Day's chge%	Euro index	£ Stlg Feb 22	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 RESOURCES(18)	3925.25	+1.8	4482.35	3854.12	4350.25	3.83	3.26	1.15	29.95	0.47	1832.07
12 Extractive Industries(5)	2996.00	+0.3	3421.22	2988.17	3072.18	4.54	4.17	2.05	13.43	3.75	967.66
15 Oil, Integrated(3)	4543.82	+1.8	5188.70	4463.80	4787.93	3.51	3.14	1.03	34.61	0.00	2180.30
18 Oil Exploration & Prod(9)	1282.04	-0.5	1463.99	1289.06	3232.66	4.35	3.79	0.97	29.69	0.00	802.86
20 GEN INDUSTRIALS(186)	1838.95	+0.4	2099.95	1830.80	2014.42	3.77	3.34	2.32	14.29	4.26	1103.27
21 Construction(37)	1327.26	-0.1	1515.63	1328.62	1464.12	3.80	3.15	3.11	10.68	1.63	1205.62
22 Building Matls & Merchs(23)	1609.89	+1.8	1838.37	1581.80	1888.80	4.67	4.05	2.12	12.65	0.33	898.20
23 Chemicals(20)	1877.15	+0.4	2143.57	1869.75	2651.49	4.88	4.60	1.97	12.98	1.44	976.66
24 Diversified Industrials(4)	1012.21	-0.4	1155.87	1016.60	1386.46	6.46	5.71	1.06	17.87	5.26	645.66
25 Electronic & Elect Equip(25)	2780.03	+1.2	3174.59	2748.29	2164.91	2.75	2.35	1.99	22.78	15.40	1586.77
26 Engineering(53)	2331.66	+0.5	2662.58	2319.40	2724.57	3.60	3.17	2.38	14.57	6.76	1539.46
27 Engineering, Vehicles(10)	3994.81	-1.9	4561.77	4073.66	3671.09	2.24	2.06	3.23	17.26	0.35	2226.08
28 Paper, Pckg & Printing(18)	1643.56	-1.1	1876.83	1661.37	2029.62	6.36	5.90	2.34	8.39	5.44	761.60
30 CONSUMER GOODS(82)	6165.80	+1.4	7040.89	6083.67	5523.12	2.18	2.05	2.03	28.23	5.90	2468.57
32 Alcoholic Beverages(5)	3593.38	+0.1	4103.38	3591.23	3499.85	3.44	3.20	2.13	17.07	0.34	1440.65
33 Food Producers(26)	3610.88	-0.4	4123.38	3623.63	3676.94	2.50	2.27	2.30	21.71	1.36	1770.67
34 Household Goods & Texts(14)	2307.78	+1.7	2635.32	2269.29	3319.37	4.42	4.01	1.94	14.57	0.80	991.34
36 Health Care(14)	2428.66	+1.6	2773.36	2390.70	2306.78	2.12	1.96	2.11	27.99	1.88	1589.73
37 Pharmaceuticals(20)	11259.12	+2.2	12857.08	11019.07	9506.08	1.57	1.51	1.81	44.15	15.93	4063.29
38 Tobacco(3)	7315.79	+0.3	8354.09	7291.16	5015.03	4.29	3.92	2.23	13.04	0.00	2084.55
40 SERVICES(201)	3906.14	+0.8	4460.53	3873.69	3115.31	2.18	1.82	2.08	27.51	5.80	2176.57
41 Distributors(25)	1885.96	-1.0	2153.63	1905.59	2523.13	4.98	4.14	2.03	12.39	1.53	757.85
42 Leisure & Hotels(31)	3685.01	+1.3	4208.00	3637.98	3605.39	2.39	2.21	2.89	18.06	20.10	2118.65
43 Media(45)	5244.96	+1.0	5989.35	5190.50	4124.22	1.93	1.70	2.13	30.39	3.76	2005.22
44 Retailers, Food(13)	2525.05	-0.4	2883.42	2534.59	2624.49	3.61	2.90	2.16	16.01	4.40	1744.24
45 Retailers, General(41)	2259.97	+1.6	2580.72	2223.39	2419.23	3.31	2.66	2.07	18.29	5.33	1401.79
46 Telecommunications(7)	6445.29	+1.3	7360.04	6362.42	3414.35	1.40	1.14	1.64	54.51	4.13	3179.29
47 Breweries, Pubs & Rest.(22)	3582.58	+0.1	4091.04	3579.45	3838.52	3.51	2.85	2.20	16.16	12.78	1865.83
48 Support Services(58)	5208.31	+0.1	5947.51	5203.73	4023.57	1.20	1.03	2.62	39.89	2.13	3453.46
49 Transport(29)	3558.98	—	4064.09	3558.56	3116.33	2.93	2.49	1.96	21.74	7.87	1610.51
60 UTILITIES(20)	4074.16	+0.5	4652.39	4052.09	3689.09	3.80	3.35	1.80	17.80	7.85	1986.13
62 Electricity(7)	4603.63	+0.7	5257.00	4569.85	4129.16	4.38	3.57	1.71	16.64	1.11	2750.78
64 Gas Distribution(2)	3269.80	+0.6	3733.86	3250.43	2862.21	1.93	1.72	0.77	80.00†	0.00	1905.97
68 Water(11)	3319.66	+0.1	3790.81	3315.86	3108.38	5.05	4.66	2.37	10.44	24.10	2108.40
69 NON-FINANCIALS(591)	2855.04	+1.0	3260.24	2827.09	2572.10	2.68	2.35	1.92	24.27	3.76	2359.28
70 FINANCIALS(120)	5467.22	+1.7	6243.16	5378.06	5838.92	2.91	2.57	2.26	19.00	20.67	2570.06
71 Banks, Retail(12)	8320.49	+2.2	9501.39	8141.34	8248.13	2.98	2.62	2.28	18.85	46.89	2866.83
73 Insurance(21)	2314.66	+0.4	2643.17	2305.56	2656.74	2.86	2.71	2.04	21.37	0.18	1940.92
74 Life Assurance(6)	7564.11	+1.2	8637.66	7477.50	7294.01	2.55	2.20	2.70	18.20	0.00	3409.86
77 Other Financial(31)	3970.12	+1.2	4533.68	3923.51	4274.84	2.75	2.30	2.45	18.59	7.71	2457.30
79 Property(48)	1788.81	-0.1	2042.69	1789.93	2380.47	3.48	2.97	1.69	21.28	2.79	1193.97
80 INVESTMENT TRUSTS(117)	3770.43	+1.5	4305.95	3713.06	3647.24	2.25	1.88	1.14	48.67	5.84	1389.14
89 FTSE All-Share(828)	2812.38	+1.2	3211.53	2779.97	2626.01	2.73	2.39	1.99	23.01	5.41	2589.36
105 FTSE All-Share ex Inv Tr(711)	2823.29	+1.2	3223.98	2791.03	2633.61	2.74	2.41	2.01	22.69	5.46	1336.89
Information Technology	1797.23	-1.3	2052.30	1820.76	1244.38	0.51	0.43	4.86	52.86	0.99	1807.71

■ Hourly movements

	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	6118.7	6173.4	6159.5	6153.9	6177.6	6180.3	6155.2	6152.0	6185.2	6111.9
FTSE 250	5186.9	5202.9	5200.7	5203.2	5203.6	5203.2	5199.7	5185.8	5205.2	5185.1
FTSE 350	2895.6	2919.0	2913.3	2911.3	2920.8	2921.8	2911.5	2909.0	2923.2	2893.6
FTSE SmallCap	2262.71	2262.81	2263.74	2264.45	2264.66	2264.63	2264.87	2263.64	2265.09	2260.75
FTSE All-Share	2798.65	2820.34	2815.08	2813.26	2822.07	2823.02	2813.48	2811.17	2824.16	2797.21

Time of FTSE 100 Day's high: 9:52:30 Day's low: 16:08:15. FTSE 100 1998/99 High: 6179.0 (20/07/98) Low: 4648.7 (05/10/98)
Time of FTSE All-Share Day's high: 9:53:00 Day's low: 15:08:00. FTSE All-Share 1998/99 High: 2865.29 (20/07/98) Low: 2168.07 (05/10/98)

Further information is available on http://www.ftse.com.

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks yesterday.

	Vol 000's	Closing price	Day's change
3i	2,347	630½	+35½
AAH/ESCA*	1,242	594	+14
ASDA Group	16,039	149	
Abbey National	2,985	1250	+13
Alliance & Leicester	1,712	893½	+8½
Allied Domecq	3,804	489	-3½
Allied Zurich	5,656	916	+10½
Anglian Water	189	763	+2
Assoc. Brit. Foods	910	485	-2½
[illegible]	[illegible]	[illegible]	[illegible]

Based on trading volume for the FTSE 100 constituents [illegible]

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE (EMU) Prices in €

EUROPE (NON-EMU)

PACIFIC

AFRICA

AMERICAS

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	MONDAY FEBRUARY 22 1999 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	Local % chg on day	Gross Div. Yield	FRIDAY FEBRUARY 19 1999 US Dollar Index	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (75)	213.96	0.2	195.50	162.74	223.34	222.19	-0.2	3.32	213.57	194.32	162.71	221.65	222.56	219.96	163.86	205.97
Austria (21)	180.60	-0.2	165.02	137.37	166.35	166.35	0.4	2.00	181.00	164.69	137.90	165.76	165.76	253.73	165.27	197.81
Belgium (22)	396.19	0.4	363.83	302.67	359.09	359.09	1.0	1.66	396.48	360.74	302.07	355.49	355.49	446.95	277.18	277.19
Brazil (29)	104.32	-1.1	95.32	79.35	106.90	375.42	0.2	6.18	105.51	96.00	80.39	109.51	374.83	269.94	89.32	233.30
Canada (113)	207.51	1.6	189.60	157.83	216.60	224.39	1.7	1.77	204.32	185.90	155.67	212.06	220.67	248.78	159.94	222.28
Denmark (34)	450.16	-0.7	411.32	342.40	469.90	412.57	-0.1	1.74	453.31	412.45	345.37	470.47	413.20	537.33	420.12	460.07
Finland (29)	589.70	0.7	538.82	448.54	667.03	667.03	1.3	1.70	585.57	532.79	446.14	658.56	658.56	661.25	338.49	338.76
France (74)	320.52	0.4	292.86	243.79	298.96	298.96	1.0	2.05	319.13	290.36	243.14	295.96	295.96	354.45	253.16	253.16
Germany (55)	253.75	0.1	231.85	193.00	233.89	233.89	0.6	1.41	253.63	230.77	193.23	232.44	232.44	325.61	226.35	246.61
Greece (36)	394.45	-0.6	360.41	300.82	411.74	825.02	0.0	1.03	396.72	360.96	302.25	411.74	825.02	429.65	211.47	–
Hong Kong, China (66)	270.96	0.3	247.58	206.09	282.84	269.55	0.3	4.53	270.13	245.78	205.81	280.36	268.74	382.55	196.64	340.64
Indonesia (24)	48.23	-2.0	44.06	36.68	50.34	263.31	-1.5	1.16	49.23	44.80	37.51	51.10	267.30	64.52	19.04	49.62
Ireland (14)	531.76	-1.4	485.88	404.47	534.93	534.93	-0.8	1.88	539.27	490.66	410.86	539.37	539.37	605.85	396.15	466.77
Italy (53)	168.92	2.2	154.35	128.49	221.43	221.43	2.8	1.44	165.21	150.31	125.87	215.32	215.32	192.84	128.68	131.26
Japan (445)	96.25	1.6	87.95	73.21	100.47	73.21	1.4	1.02	94.75	86.21	72.19	98.34	72.19	107.62	76.83	102.87
Mexico (29)	1231.61	1.0	1125.34	936.78	1285.61	13383.60	1.2	1.91	1219.42	1109.50	929.06	1265.59	13229.87	1733.73	787.15	1518.41
Netherlands (26)	483.03	1.6	441.35	367.40	440.41	440.41	2.2	2.16	475.24	432.40	362.08	430.82	430.82	562.73	394.92	436.68
New Zealand (18)	68.40	1.2	62.50	52.03	71.40	67.06	1.4	4.20	67.57	61.48	51.48	70.13	66.18	77.84	45.68	75.87
Norway (37)	221.83	-0.5	202.68	168.72	231.55	236.76	0.0	2.21	222.88	202.79	169.81	231.32	236.83	357.71	181.86	300.44
Philippines (22)	84.36	0.1	77.08	64.17	88.06	164.79	0.9	0.98	84.25	76.65	64.19	87.44	163.32	106.98	42.48	90.64
Portugal (18)	247.42	-0.2	226.07	188.19	307.77	307.77	0.4	1.07	247.85	225.51	188.83	306.53	306.53	298.39	194.13	–
Singapore (40)	202.31	1.9	184.86	153.88	211.18	159.61	2.2	1.75	198.54	180.65	151.27	206.06	156.18	246.74	102.45	215.71
South Africa (35)	189.54	1.3	173.18	144.17	197.85	257.17	0.6	3.50	187.06	170.22	142.53	194.16	255.77	346.20	151.55	279.26
Spain (30)	380.92	0.5	348.05	289.74	435.26	435.26	1.1	1.85	379.10	344.92	288.83	430.69	430.69	435.19	290.81	316.67
Sweden (43)	531.48	1.6	485.62	404.25	554.78	634.86	2.0	1.92	523.06	475.91	398.51	542.86	622.25	628.19	379.18	504.93
Switzerland (30)	390.79	1.3	357.07	297.24	407.92	351.25	1.8	1.22	385.93	351.14	294.03	400.54	344.99	441.65	307.73	376.64
Thailand (31)	21.06	-0.8	19.24	16.02	21.98	30.79	-0.5	2.93	21.24	19.32	16.18	22.04	30.94	33.84	8.15	31.96
United Kingdom (201)	382.10	0.1	349.13	290.63	398.85	349.13	0.5	2.76	381.72	347.31	290.82	398.17	347.31	401.84	307.96	365.72
USA (613)	524.55	2.6	479.29	398.98	547.55	524.55	2.6	1.25	511.24	465.15	389.50	530.59	511.24	527.72	390.12	422.44
Americas (784)	465.18	2.5	425.04	353.83	485.68	394.87	2.6	1.29	453.64	412.75	345.62	470.81	385.03	467.90	347.59	382.38
Europe (723)	349.70	0.6	319.53	265.99	365.04	330.74	1.1	2.05	347.70	316.36	264.91	360.86	327.18	386.24	282.63	315.65
Eurobloc (342)	99.72	0.8	91.12	75.85	99.48	99.48	1.3	1.77	98.98	90.06	75.41	98.16	98.16	113.92	81.53	–
Nordic (143)	496.58	0.9	453.82	377.78	518.45	514.20	1.4	1.85	492.32	447.94	375.09	510.66	507.27	555.97	360.04	442.91
Pacific Basin (721)	104.05	1.3	95.07	79.14	108.61	81.32	1.2	1.56	102.70	93.44	78.24	106.59	80.39	117.89	82.88	112.69
Euro-Pacific (1444)	206.18	0.8	188.39	156.83	215.22	176.01	1.1	1.91	204.57	186.13	155.86	212.32	173.09	221.79	166.00	197.34
North America (726)	503.06	2.6	459.65	382.63	525.11	503.80	2.6	1.27	490.48	446.25	373.67	509.03	491.17	506.43	374.92	409.61
Europe Ex. UK (522)	322.26	0.8	294.46	245.12	336.40	311.89	1.4	1.89	319.84	290.83	243.53	331.74	307.62	366.32	260.93	281.97
Europe Ex. Eurobloc (381)	96.87	0.4	88.51	73.68	101.12	98.46	0.8	2.34	96.48	87.79	73.51	100.14	97.82	103.93	77.40	–
Europe Ex. UK Ex. Eurobloc (180)	95.85	1.1	87.58	72.90	100.05	95.46	1.6	1.44	94.84	86.29	72.26	98.43	93.98	109.21	75.16	–
Pacific Ex. Japan (276)	178.60	0.3	163.19	135.84	186.43	181.44	0.2	3.61	177.98	161.94	135.60	184.72	181.04	216.04	128.26	203.06
World Ex. Eurobloc (1921)	106.51	2.0	97.32	81.01	111.18	105.94	2.0	1.53	104.45	95.03	79.58	108.40	103.83	108.05	83.09	–
World Ex. US (1650)	205.80	0.8	188.04	156.53	214.82	180.04	1.1	1.94	204.18	185.73	155.53	211.86	178.03	221.91	165.95	200.55
World Ex. UK (2062)	301.42	2.0	275.41	229.26	314.63	272.71	2.1	1.48	295.57	268.92	225.19	306.76	267.13	311.48	236.11	263.20
World Ex. Japan (1818)	413.76	1.8	378.06	314.71	431.90	408.13	2.0	1.62	406.43	369.80	309.65	421.82	400.21	427.99	320.58	356.40
The World Index (2263)	308.38	1.8	281.77	234.56	321.90	279.77	1.9	1.57	302.98	275.67	230.84	314.46	274.49	318.51	242.96	271.86

Emerging markets: IFC investable indices

Dollar terms

Feb 22 Market		Day's chg %	% Chg since 31/12/98
Latin America			
Argentina	756.18	-0.1	-5.2
Brazil	218.82	-0.9	-20.5
Chile	476.23	-0.3	+6.5
Colombia[1]	379.99	-0.2	-13.5
Mexico	518.21	+0.9	+7.6
Peru[2]	138.59	-0.5	+1.6
Venezuela[3]	358.00	+1.6	-21.0
East Asia			
China[4]	21.83	-1.7	-16.6
India[7]	59.66	-1.4	+8.5
Indonesia[6]	22.15	-2.2	-8.5
Korea[5]	48.36	-3.4	-12.5
Malaysia	86.89	-0.7	-1.7
Pakistan[8]	86.19	+0.3	-8.9
Philippines	115.77	+0.2	-6.0
Sri Lanka[10]	71.87	-1.2	-12.7
Taiwan, China[6]	114.83	+6.8	-0.8
Thailand	56.65	-1.0	-10.3
Europe			
Czech Rep	41.43	-0.6	-18.4
Greece	705.26	-0.6	+13.9
Hungary[11]	247.53	-4.0	-11.8
Poland[12]	507.19	-1.4	-3.1
Portugal	279.83	-0.2	-4.2
Russia	33.60	+10.7	+43.3
Slovakia	39.42	-4.4	-9.6
Turkey[14]	188.36	-3.6	+28.7
Mideast/Africa			
Egypt	78.29	-0.6	+18.4
Israel	108.90	+3.2	+4.8
Jordan	236.40	+0.5	+8.7
Morocco	169.30	-0.6	+1.0
S Africa[13]	131.01	+1.4	+4.6
Zimbabwe[15]	111.84	-0.6	+5.4
Regions			
Composite	184.76	+0.2	-1.1
Latin America	400.22		-4.7
Asia	99.53	+0.4	-7.0
EMEA	121.84	+0.2	+6.6
Europe	161.85	-0.8	+7.9
Eastn Europe	58.28	+0.6	+0.3
ME & Africa	58.34	+1.4	+5.1
Comp + Malay	187.40	+0.1	-1.1
Asia + Malay	101.68	+0.1	-5.9

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1993; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1993; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993.
Latest indices were unavailable for this edition.

4 pm close February 23

NEW YORK STOCK EXCHANGE PRICES

Price data supplied by Financial Times Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
§ Dealings suspended.

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Feb 22	Feb 19	Feb 18	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Industrials	9552.68	9339.95	9298.63	9643.32 (8/1/99)	7539.07 (31/8/98)	9643.32 (8/1/99)	41.22 (8/7/32)
Home Bonds	105.20	105.31†	105.31	107.17 (9/12/98)	104.42 (11/5/98)	107.17 (9/12/98)	54.99 (1/10/81)
Transport	3231.57	3134.51	3123.87	3686.02 (16/4/98)	2345.00 (8/10/98)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	298.75	295.59†	295.25	320.51 (8/10/98)	262.65 (9/1/98)	320.51 (8/10/98)	10.53 (8/7/32)

DJ Ind. Day's High 9658.13(9430.58) Low 9288.84 (9218.13) (Theoretical¶)
Day's high 9558.28(9395.87) Low 9331.16 (9267.71) (Actual¶)

Standard and Poors	Feb 22	Feb 19	Feb 18	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Composite‡	1272.20	1239.13†	1237.28	1279.64 (29/1/99)	927.69 (9/1/98)	1279.64 (29/1/99)	4.40 (1/6/32)
Industrials¶	1531.95	1492.61†	1490.11	1551.66 (29/1/99)	1077.40 (9/1/98)	1551.65 (29/1/99)	3.52 (30/6/32)
Financial¶	136.77	132.71	132.38	147.89 (14/7/98)	95.80 (8/10/98)	147.89 (14/7/98)	7.13 (4/9/74)
Others							
NYSE Comp.	600.23	588.58	586.46	611.86 (8/1/99)	477.20 (8/10/98)	611.86 (8/1/99)	4.64 (25/4/42)
Amex Comp	700.03	692.57	689.82	753.67 (22/4/98)	563.75 (8/10/98)	753.67 (22/4/98)	524.20 (16/7/98)
NASDAQ Cmp	2342.41	2283.60†	2260.55	2510.09 (1/2/99)	1419.12 (8/10/98)	2510.09 (1/2/99)	54.87 (3/10/74)
Russell 2000	397.82	392.30	391.09	491.41 (21/4/98)	310.28 (8/10/98)	491.41 (21/4/98)	123.36 (7/12/93)

■ RATIOS

	Feb 19	Feb 12	Feb 5	Year ago
Dow Jones Ind. Div. Yield	1.66	1.66	1.65	1.86
	Feb 17	Feb 10	Feb 3	Year ago
S & P Ind. Div. yield	1.19	1.15	1.10	1.40
S & P Ind. P/E ratio	37.72	38.00	39.55	27.24

US DATA

■ MARKET ACTIVITY

● Volume (million)	Feb 22	Feb 19	Feb 18
NYSE	718.530	700 003	742.450
Amex	28.971	20.476	24.922
NASDAQ	849.290	818.981	884.379

NYSE	Feb 22	Feb 19	Feb 18
Issues Traded	3,553	3,523	3,547
Rises	1,972	1,390	1,762
Falls	1,085	1,525	1,213
Unchanged	549	608	572
New Highs	51	28	29
New Lows	68	87	145

■ NYSE TRADING ACTIVITY — Volume : 718,530,000

■ ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
AmOnLne	14,886,900	172⅞	+12¼
Citgrp	9,460,800	55¼	+1¼
Compaq	9,424,900	42⅝	+1¼
BellSth	7,888,900	46	+2⅜
Mirage Res	8,949,700	20⅜	+2⅛
Merck	8,826,800	81¾	+2¾
AT&T	8,518,700	88⅜	+⅞
LucentTch	8,204,400	108⅜	+3⅜
WrnLam	5,479,900	67¾	+3¾
GenElec	5,284,900	104	+3¾

■ BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Pinkerton	28⅛	+11⅝	+69.3
Sodelr	66¾	+9¾	+16.7
Mirage Res	20⅜	+2⅛	+11.4
AdvMic	18⅛	+1⅞	+11.2
Downs			
Marstell	15¾	−3⅝	−18.1
Cascade	12⅛	−1⅛	−8.5
FruitLoom	12⅜	−¾	−5.6
DomRes	40	−2⅜	−5.5

■ NASDAQ TRADING ACTIVITY — Volume :849,290,000

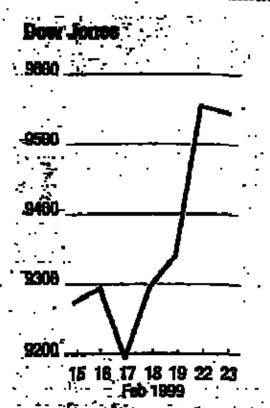
■ ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
DellComp	35,881,500	84⅞	+4¾
Micsft	23,009,000	149	+1¾
CiscoSys	16,588,800	102⅛	+4⅜
Intel	14,826,100	132⅜	+4¾
MCIWcm	12,718,500	85	+⅜
E trade	12,128,700	48⅞	+8⅞
Oracle	9,805,700	54⅜	+⅞
Amz.com	9,591,800	106¾	+4¾
PeoplSoft	8,884,000	20⅛	+1⅛
Yahoo	8,345,400	145	+9⅜

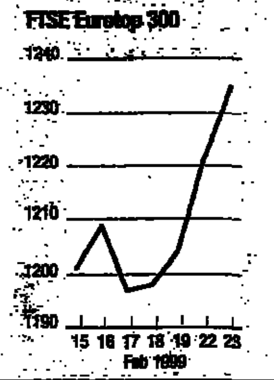
■ BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
AmerITrade	104¾	+18¼	+21.2
E trade	48⅞	+8⅞	+21.0
ICG Comm	19¾	+3⅜	+20.9
eBay Inc	278¾	+39¾	+16.4
Downs			
HollandW	24⅜	−3⅛	−11.4
MCO Grp	28⅜	−3⅛	−10.0
IDX Sys	30	−3	−9.1
United St	21¾	−2	−8.6

Dow Jones



FTSE Eurotop 300



JAPAN

	Feb 23	Feb 22	Feb 19	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Nikkei 225	14580.85	14258.87	14098.04	17264.3	12880	38915.9	85.25

Day's high: 14600.65. Day's low 14284.27.

■ TOKYO TRADING ACTIVITY — Volume : 580,880,000

■ ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
ShekJt	16,005,000	111	−5
NEC	14,202,000	1200	+30
NpStl	9,532,000	205	+1
KawSti	9,060,000	169	+9
BTokM	8,699,000	1402	+2
MicsMt	8,571,000	434	+18
SowaBk	8,452,000	1217	+28
YasTrB	8,582,000	114	+3
Hitachi	8,648,000	747	+3
DaiwaSc	8,407,000	476	+19

■ BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
AndoCa	203	+33	+19.4
BnShue	293	+33	+12.7
Amics	107	+12	+12.8
FujiSp	194	+15	+12.6
Downs			
Zaxel	217	−18	−7.7
TkoCar	113	−9	−7.4
DowaFM	375	−26	−6.5
DTokFM	360	−24	−6.2

GERMANY

	Feb 23	Feb 22	Feb 19	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
DAX	4987.56	4845.18	4802.38	6171.43	3896.08	6171.43	931.18

Day's high: 5034.44. Day's low: 4919.78.

■ FRANKFURT TRADING ACTIVITY — Volume : (a)

■ ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Bayer	775,337	32.1	+1.93
BASF	338,042	31.65	+1.05
Dt Tel	331,084	41.35	+2.15
H'chst	155,856	41.4	+1.32
Contotl	104,722	23.9	−0.35
DegHls	77,800	32.1	+0.9
ABIndV	57,705	20.5	+0.35
GEA	51,720	20.95	−1.05
BHW	41,593	14.85	
BUBg	37,959	17.85	+0.15

■ BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
SAP	312	+20	+6.8
Hritz	22.9	+1.4	+6.5
AachMunBr	99	+6	+6.5
Bayer	32.1	+1.93	+6.4
Downs			
Kickst	32	−8	−20
ColPrf	60	−7.5	−11.1
Puma	13.7	−1.05	−7.1
RhenW	18.55	−0.95	−4.9

FRANCE

	Feb 23	Feb 22	Feb 19	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
CAC 40	4207.65	4165.66	4130.48	4388.48	2862.54	4388.48	894.61

Day's high. 4241.37 Day's low: 4145.88.

■ PARIS TRADING ACTIVITY — Volume : 703,865,020

■ ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
FrTele	1,759,506	83.6	+0.6
Usinor	1,522,771	12.25	+0.25
RhonPA	1,204,455	43	−0.05
Axa	876,559	124.5	+1
Schedr	875,357	53.1	+1.5
SocGen	875,310	136	+3.1
Alctel	858,450	100.9	+2.8
BNP	802,785	75.5	−2
EIAqu	784,655	94.2	+0.7
PechnyA	774,410	30.8	+0.45

■ BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
G'plys	37	+2	+5.7
Labinl	188.5	+9.1	+5.1
Sanofi	162.1	+7.1	+4.6
Syntrl	208	+9	+4.5
Downs			
Casino	86.5	−5.5	−6.0
Selfing	64	−3	−4.5
Eramet	33.63	−1.12	−3.2
SGE	40.2	−1.1	−2.7

UK

	Feb 23	Feb 22	Feb 19	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
FTSE 100	6155.2	6069.9	6031.2	6179	4648.7	6179	986.9

Day's high: 6185.2. Day's low 6069.9.

■ LONDON TRADING ACTIVITY — Volume : 922,400,000

■ ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Unilever	23,846,540	624½	−1
Tesco	20,583,080	172¼	−¼
BP Amoco	18,745,790	858½	+14½
BG	18,612,340	364¼	+3¼
BTR Siebe	17,049,870	242¼	+2¼
Shell	15,845,965	339	+8½
Centrica	10,987,780	122	−½
Smithkline	10,972,260	899	+32
Lloyds TSB	10,476,310	913½	+10
Br Airways	10,338,230	470½	+13

■ BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Drew Scott	97½	+21	+27.5
Coutts Cons	35½	+7	+24.8
BS Grp	145	+25	+20.8
Proudfoot	20¼	+3¼	+19.1
Downs			
Total Office	38½	−14	−26.7
Caltone	23	−4	−14.8
Stadium Grp	104½	−15	−12.6
Oxford Asym	490	−59	−10.6

INDEX FUTURES

■ S&P 500	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	1274.00	1276.00	+0.50	1284.50	1266.00	101,911	377,081
Jun	1286.00	1287.00	+0.60	1297.00	1279.00	2,615	26,346
■ Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	14320.0	14430.0	+110.0	14490.0	14290.0	26,794	187,575
Jun	14230.0	14360.0	+150.0	14380.0	14210.0	488	40,912

Open interest figures for previous day.

■ CAC-40 (200 x Index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Feb	4200.0	4215.0	+47.0	4235.0	4169.0	n/a	38,325
Mar	4198.0	4223.0	+47.0	4250.0	4178.0	n/a	340,498
■ DAX							
Mar	4970.0	5022.0	+117.0	5055.0	4955.0	62,848	220,737
Jun	4995.0	5048.0	+129.0	5077.0	4994.0	7,077	81,447

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
■ OMX							
Feb	750.00	739.00	+0.50	750.00	736.00	64,622	94,453
Mar	747.00	737.25	−1.25	747.50	735.50	50,116	44,921
■ EUREX							
Mar	7140.0	7165.0	+80.0	7188.0	7086.0	30,021	135,481
Jun	7081.0	7105.0	+76.0	7107.0	7047.0	130	4,391

WORLD MARKETS AT A GLANCE

Country	Index	Feb 23	Feb 22	Feb 19	1998/99 High	1998/99 Low	Yield	P/E
Portugal	BVL 30	4908.85	4908.17	4885.27	6178.89 22/4/98	3998.08 2/10/98	2.04	27.3
	PSI 20	11324.33	11322.89	11270.82	14299.00 22/4/98	8414.61 2/10/98		

Equities becalmed in spite of gains in neighbouring markets and Wall Street's overnight climb.

Country	Index	Feb 23	Feb 22	Feb 19	1998/99 High	1998/99 Low	Yield	P/E
Russia	RTS	73.92	75.40	70.22	411.81 5/1/98	38.53 5/10/98	na	na

[illegible]

THE NASDAQ-AMEX MARKET GROUP

4 pm close February 23

[illegible]

AMEX

4 pm close February 23

[illegible]

EASDAQ

[illegible]

STOCK MARKETS

Greenspan caution given sanguine reaction

WORLD OVERVIEW

European equity markets shrugged off a cautious statement by Alan Greenspan, chairman of the Federal Reserve, ending mostly higher, *writes Bertrand Benoit.*

Frankfurt moved 2.6 per cent ahead, while Paris and Zurich advanced 1 per cent. Wall Street eased after the release of the Greenspan speech but quickly recovered, brushing up against its all-time high during a volatile session, before falling back again. Asia added to the sentiment, with most markets posting gains following Wall Street's overnight run.

Tokyo thrived on a weaker yen, closing 1.7 per cent higher, while Hong Kong added 2.2 per cent and Sydney ended 0.3 per cent higher.

Giving his biannual testimony to the Senate, Mr Greenspan said the economy "appears stretched in a number of dimensions", adding: "Equity prices are high enough to raise questions of whether shares are overvalued." The cautious statement, which hinted at a possible interest rate rise later this year, was seen as confirmation of some analysts' fears about the high valuation of US stocks.

With gross domestic product forecasts for the US pointing to 3 per cent growth in 1999, according to a note by ABN-Amro, the economic momentum is too weak to deliver the level of company earnings implied in current share prices.

This, said the bank, suggests liquidity and demographic factors – baby boomers piling in on stocks ahead of retirement – are the main drivers behind the market's strength. With only technical factors underpinning prices, shares could be vulnerable to a rate rise this year, the bank suggests.

But the sanguine reaction of investors yesterday underlined the robustness of the market.

"Signs of monetary policy tightening are not necessarily bad news for US investors," said an analyst at Morgan Stanley. "In the medium term, a bit of inflation could actually mean increased pricing power, which is good for companies."

Analysts expect Europe to get a further boost from upcoming data if they confirm that the European economy is in the process of bottoming out.

INSEE, the French state statistics agency, will publish its industrial survey tomorrow, to be followed on Friday by fourth-quarter GDP figures from France.

Although the GDP data is expected to confirm the softening of economic activity at the end of last year, the industrial survey will be watched for any stabilisation in French output.

Dow see-saws as bond prices sent tumbling

AMERICAS

US shares were mixed at midsession in volatile trade soon after the conclusion of Federal Reserve chairman Alan Greenspan's Humphrey-Hawkins testimony before Congress, *writes John Labate in New York.*

Mr Greenspan's comments were seen as well-balanced, but traders in the Treasury market pointed to one line that set off a wave of selling in bonds.

Mr Greenspan appeared to suggest that last autumn's interest rate cuts may have been too severe, and bond prices quickly tumbled. By early afternoon the 30-year Treasury bond was down 1/2 to 97 5/8, yielding 5.413 per cent on fears that a strong economic performance could lead to an interest rate rise.

Stock prices were higher in the morning, led by a stronger high-tech sector. As bonds stayed low, however, the momentum in the blue-chip and other sectors was lost. The Dow Jones Industrial Average was down 7.47 by early afternoon to 9,545.21. The broader Standard & Poor's 500 index had lost less than a point to 1,271.26.

Computer and other high-tech stocks held up although they slipped off their morning highs. The Nasdaq composite index, heavy in technology issues, was 32.74 higher, a gain of 1.4 per cent, at 2,374.75. Small company shares also held up, with the Russell 2000 index up 1.21 to 399.03.

Key financial shares in the Dow were stronger despite the fall in bond prices, with Citigroup up $2 1/16 to $57¾ and American Express up $3 5/16 to $112 1/16. Weighing on the index, Minnesota Mining & Manufacturing shares were off $2¼ to $76¾ and Procter & Gamble was down $1 1/16 to $91 1/16.

The retail sector was an area of interest to investors, as the earnings reporting season picked up. Barnes & Noble, the leading bookseller, tumbled more than 12 per cent or $4 5/8 to $31 3/8 after the company issued a profits warning. Starbucks was up $3 to $52⅞ after the company announced a 2-for-1 stock split. Nordstrom was down $2¾ to $41¾ after it released its quarterly results.

Steel producers picked up after Salomon Smith Barney raised several to a "buy" rating, including Bethlehem Steel, up $⅜ or 4.7 per cent to $8¾.

TORONTO edged lower in uncertain early trade with the latest statements from the chairman of the US central bank sparking doubts about the next move for interest rates.

"It's not clear whether Alan Greenspan is hinting at higher US rates or not, but it has certainly taken the shine off the banking sector," said one broker.

Royal Bank of Canada shed 35 cents to C$79.05 in heavy volumes and Bank of Montreal came off 45 cents at C$65.25. Toronto-Dominion Bank lost 45 cents at C$65.50.

Telecoms continued to improve with Northern Telecom adding C$1.30 at C$94.10, but drinks and entertainments giant Seagram retreated 35 cents to C$70.65 and ATI Technologies 80 cents at C$24.10.

The easier broad tone of the morning session left the 300 composite index off 8.45 at 6,496.80 at noon.

São Paulo steadies after Fed chairman's speech

SAO PAULO moved sideways in early trading as investors digested the latest policy remarks from Alan Greenspan, chairman of the US Federal Reserve, and came to no very clear-cut conclusions.

There was initial selling, but volumes remained subdued and once it became clear that the Greenspan statement contained no obviously veiled threats to share markets, sentiment steadied.

At midsession, the benchmark Bovespa index was up 56 at 9,130.

Itau advanced 2.2 per cent to R$700 after the bank reported better-than-expected results.

MEXICO CITY had a volatile morning but by midsession the IPC index was standing in positive territory with a gain of 8.47 at 4,251.65. Market heavyweight Telmex improved 10 centavos to 29.05 pesos.

Dax jumps back above 5,000

EUROPE

Wall Street's early buoyancy helped FRANKFURT climb back above the 5,000 level for the first time in more than two weeks. The Xetra Dax index ended 124.90 higher at 5,012.60 after reaching a session best of 5,039.68.

Talk that Deutsche Telekom was a hot favourite to counter Olivetti's contentious €52bn takeover bid for Telecom Italia sent the German giant up to €42.20 before closing €2.39 higher at €41.89. Mannesmann added €4.60 at €129.30.

RWE pleased the market with a strong earnings statement and shares in the utility rose 92 cents to €39.72.

Deutsche Bank hardened 32 cents to €47.50 in spite of continuing media focus on the prospect of flat earnings for 1998. Most other financials gained ground. Allianz rose €12.5 to €285. Munich Re advanced €6.60 to €185.6.

The FTSE Eurotop 300 index rose 13.86 or 1.13 per cent to 1,235.39. See Euro Prices page.

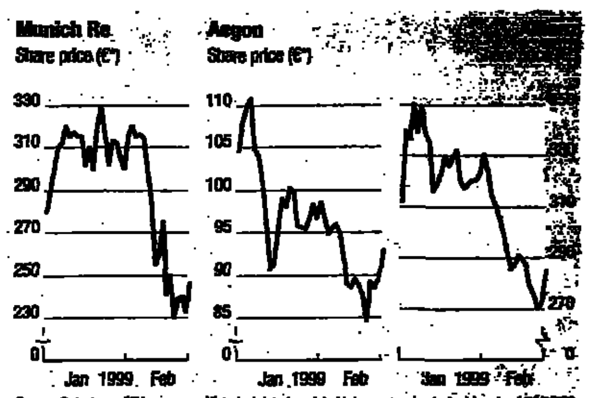
Steel groups Thyssen and Krupp both pushed ahead, adding €2.26 to €176.50 and €4.10 to €134.50 after the companies scotched rumours their planned merger had hit problems by announcing the deal would go ahead soon after the March 1 deadline.

Bayer, a weak market lately, rallied €1.90 to €32.15. BASF added 86 cents at €31.65. SAP, also a laggard in recent sessions, improved €18.60 to €342.50.

PARIS took its cue from confident markets in the US and Europe to end 1 per cent higher. The CAC-40 was up for the fourth day running, adding 42.09 to 4,207.95.

Air France continued to rise on its second day of trading, gaining €1.60 or 9.9 per cent to €17.70.

Canal Plus soared after it confirmed that it was in talks with Rupert Murdoch's empire and other media players on a European alliance. But shares later retreated after analysts warned that any alliance would come under close scrutiny by competition regulators in Brussels. The stock ended €1.20 lower at €293.80.



Source: Datastream/ICV · Historical data translated into euros using locked-in rate of 31/12/98.

L'Oréal, up €7.50 to €607.50, and Sanofi, €7.10 higher to €162.10, gained as both companies were expected to post healthy results this week. But profit-taking took the shine off BNP, down €2 to €75.50, and Carrefour, off €7 to €627.

AMSTERDAM ended 8.38 higher at 536.69 on the AEX index after a session boosted by confirmation that Unilever planned an $8.1bn special dividend.

The foods and detergents giant surged to €73.60 early on as buyers took their cue from a strong earnings statement and an upgrade from SG Securities. The stock ended up €1.20 at €69.50.

Philips rose €2 to €67.20 on good options activity while insurance leader Aegon jumped €3.35 to €92.90. Media group Wolters Kluwer turned in the day's best performance, adding €7 or 4.3 per cent at €169.50.

MILAN followed Wall Street lower late in the session and the Mibtel index finished 25 weaker at 24,122, off a high of 24,308.

Telecoms remained the focus of attention. Olivetti eased 6 cents to €2.91 as it sought to salvage its $58bn bid for Telecom Italia, which was 31 cents easier at €9.56 as the would-be prey built up defences.

Elsewhere, Generali rose €1.09 to €36.28, lifted by a buying spree triggered by Monday's bid activity and hopes that the insurer would push ahead with its growth by acquisition policy.

ZURICH gained ground, lifted by a firming dollar and a strong rebound in index heavyweight Novartis. The SMI index finished 69.0 higher at 7,145.7. Novartis put on SFr39 to SFr2,569 as investors decided the recent sell-off had been overdone. Roche certificates rose SFr110 to SFr18,340.

Specialty chemical groups were losers. Ciba lost SFr4.50 to SFr110 as its 1998 results came in below expectations. Clariant slid SFr4 to SFr724, unable to capitalise on switching from its rival.

Among mostly firmer financials, Swiss Re climbed SFr66 to SFr3,359.

HELSINKI regained 6,000 points on the Hex index for the first time in three weeks, largely in response to strong performances by Nokia and Pohjola. The index closed 143.53 higher at 6,057.54.

Nokia climbed €6.43 to €126.33 as the market gave an upbeat response to its launch of a handset with internet access at the GSM World Congress in Cannes.

Pohjola rose €3.95 to €51, boosted by speculation about Nordic merger possibilities in the insurance sector.

STOCKHOLM edged ahead with the day's new product news from Nokia overshadowing developments at Ericsson. The general index added 5.03 to 3,377.51

Ericsson slipped SKr0.50 to SKr222.50 as it sought to shrug off the news from Nokia, saying it did not expect the launch to hurt sales of its new T28 model, which will hit the market at about the same time.

Defence technology company Celsius soared SKr13 to SKr128 on news 1998 profits had more than doubled.

Handelsbanken fell SKr7 to SKr297.50 as the bank, Sweden's biggest, reported results that were slightly worse than expected and said it saw no need for major Nordic acquisitions.

OSLO was boosted by strong gains in the financial sector but Anglo-Norwegian engineering group Kvaerner ended NKr2 weaker at NKr142 after posting 1998 results below expectations. The total index finished 11.16 higher at 986.86

Written and edited by Michael Morgan, Jeffrey Brown, Paul Gregan and Peter Hall

Earnings push Jo'burg higher

SOUTH AFRICA

Robust corporate earnings coupled with Wall Street's overnight gains sent Johannesburg ahead, lifting the all share index 35 to 5,933.3 in good two-way volume.

The industrials index rose 58.2 at 6,780.8. Sasol, the fuels and chemicals leader, jumped 80 cents to R24.65 after turning in earnings ahead of broker estimates.

Platinum shares continued to rally with Amplats up a further 180 cents at R96. Golds though stayed soft. The sector index lost 17.5 at 856.8.

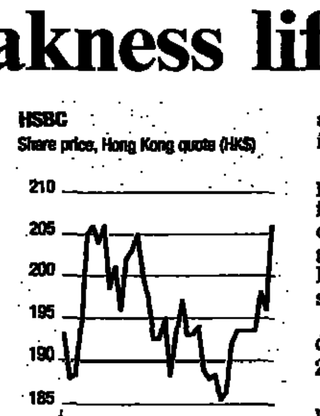
Yen weakness lifts Tokyo again

ASIA PACIFIC

The continuing weakness of the yen combined with overnight strength in New York to boost TOKYO stocks for the second consecutive day, *writes Paul Abrahams.* The benchmark Nikkei 225 average closed above 14,500 points for the first time since December 10.

The index ended up 243.98, or 1.7 per cent at 14,500.65, its high for the day, after climbing from a low of 14,284. The more representative weighted Nikkei 300 rose 1.92 to 223.66. The Topix index of all first-section shares was up 8.8 at 1,117.7: The momentum was up, with 739 stocks rising, 481 down and 90 unchanged. Volume was heavy as 560m shares were traded. Analysts said this was because yesterday was the last day to trade stocks for delivery this month.

Real estate continued its strong run, up 3.6 per cent on the day. Property companies have been supported by falling bond yields and hints from members of the ruling Liberal Democratic party that new measures might be introduced to support real estate prices. Mitsui Fudosan rose Y28 to Y957 while Mitsubishi Real Estate gained Y48 to Y1,160.



Source: Datastream/ICV

Sato Kogyo, the construction company, jumped 11.7 per cent or Y9 to close at Y86 after revealing it would ask its creditor banks to forgive Y120bn in debt.

NEC, the electronics conglomerate, was the second most heavily traded stock, up Y30 at Y1,200 after announcing a restructuring plan over the weekend. Toshiba closed up Y7 at Y737 after briefly, during intraday trading, overtaking Hitachi, which closed up Y3 at Y747. In Osaka, the OSE index closed up 165 at 15,239.

HONG KONG jumped 2.2 per cent on strong demand for HSBC as investors welcomed plans by the banking giant to split its shares and list them on the New York stock exchange.

The Hang Seng index, dominated by HSBC, rose 204.65 to close at 9,433.99.

HSBC soared HK$10 or 5.1 per cent to HK$206, adding 130 points to the index.

Analysts said that while Monday's results were largely in line with expectations, investors had focused on potential gains in HSBC's price-to-earnings multiple from listing the shares in New York.

Turnover in HSBC shares reached HK$1.4bn, about 40 per cent of total market turnover. Hang Seng Bank, 62 per cent owned by HSBC, rose HK$1.50 to HK$61.75 while other blue chips closed moderately higher.

TAIPEI ran into profit-taking and the weighted index, up almost 9 per cent in two sessions, ended 2.1 per cent or 132.69 lower at 6,180.94.

Financials, notably the banks, continued to find buyers in the wake of last week's package of stimulus measures. Commercial Bank and Chung Hsing Bill both went limit up, rising 7 per cent to T$53.50 and T$20.60 respectively.

The broader market saw heavy selling that lifted turnover to T$108.7bn, its best for some months.

WELLINGTON closed 1.2 per cent off as NZ Telecom came under pressure from profit-taking despite a strong overnight performance on Wall Street. The 40 capital index retreated 26.96 to 2,234.43, with NZ Telecom alone accounting for 20 points in the fall.

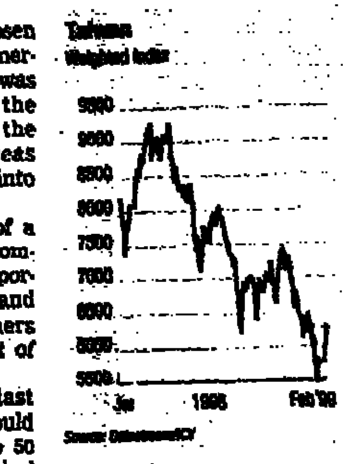
The bout of selling put a halt to a seven-day rally by the telecommunications heavyweight, with the stock ending 25 cents down at NZ$9.54. AMP led the gainers, adding 37 cents to NZ$23.42 ahead of its result announcement today.

SEOUL was weak after a session marked by technical problems in the exchange's electronic trading system which hampered operations.

The composite index lost 5.61 to 502.88 in volume of 111.7m shares, the lowest since the start of 1999.

EMERGING MARKET FOCUS

Taipei opens its doors to world



Source: Datastream/ICV

Taiwan's decision to loosen its limits on foreign ownership of listed companies was hardly the result of the curbs buckling under the pressure from overseas investors eager to get into the market.

Despite the presence of a number of world-class companies and Taiwan's importance as an economic and trading power, foreigners own less than 4 per cent of shares listed in Taipei.

The announcement last Friday that foreigners would be allowed to buy up to 50 per cent of listed companies' stock was seen by some as symbolic, given the lack of pressure on the current 15 per cent cap on individual stakes.

For local investors and stock exchange officials, however, the news raised hopes of a possible increase in overseas investment that would support a faltering market. Indeed, restrictions on involvement in Taiwan have been more of a boon than a bane recently.

The market slid 21.6 per cent in 1998 and has fallen further since, despite government attempts to bolster prices that included a huge but ineffective stabilisation fund.

If the raising of ownership limits prompts Morgan Stanley Capital International to increase Taiwan's weighting in its benchmark regional index, the result could be an inflow of overseas capital, said Allan Chu of the Taiwan Stock Exchange's trading department.

MSCI weights its Taiwan index at just 50 per cent of market capitalisation because of the island's "relatively onerous" restrictions on foreign investment.

Jeffrey Toder, head of research at Jardine Fleming in Taiwan, welcomes the raising of the limits on ownership but points out that it leaves intact other controls.

"I don't think it is enough to prompt MSCI to make a change in the Taiwan weighting," Mr Toder said. "It doesn't change any of the investment restrictions – it's a long-term positive but has no short-term impact."

While infusions of foreign investment would certainly be welcome, efforts to open Taiwan's economy must contend with a deep-seated fear that they might open chinks in its defences against possible aggression from its arch-rival, mainland China.

Sabre-rattling by Beijing caused markets to plunge in 1995, and officials fear such vulnerability will be heightened if they allow capital to flow more freely.

Even with easier access, some foreigners would no doubt think twice before plunging into a market dominated by retail investors, vulnerable to manipulation and plagued by a lack of corporate clarity.

The size and relatively robust growth of Taiwan's economy and its role as an information technology powerhouse make the island difficult to ignore. The higher limit on investment could open the way for foreign take-overs of juicy technology companies.

"It may bring some potential strategic investors into the market," said Peter Kurz, director of Merrill Lynch Taiwan.

Mure Dickie